Austria	Sch24	Indonesia	Rp3100	Philippines	Peso30
Bahrain	Din0.750	Iran	[illegible]	Portugal	[illegible]
Belgium	BFr55	Israel	[illegible]	Qatar	[illegible]
Cyprus	C£0.90	Italy	L2000	S.Arabia	SR7.00
Denmark	DKr13.00	Jordan	[illegible]	Singapore	S$4.10
Egypt	E£3.25	Kuwait	[illegible]	Spain	[illegible]
Finland	FM8.50	Lebanon	L£400.00	Sweden	SKr12
France	FFr7.50	Lux	LFr55	Switz	SFr2.20
Germany	DM2.50	Malaysia	M$4.25	Thailand	[illegible]
Greece	Dr150	Morocco	Dh6.00	Tunisia	[illegible]
Hong Kong	HK$12	Neth	Fl3.25	Turkey	[illegible]
Hungary	[illegible]	Nigeria	[illegible]	UAE	Dh7.00
Iceland	IKr160	Norway	NKr12.00		
India	Rs15	Oman	OR1		

EUROPE'S BUSINESS NEWSPAPER

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Wednesday May 9 1990

D 8523A

SOUTH KOREA

Housing shortage is number one priority

Page 4

World News

Kohl says no to unity until military status settled

Mr Helmut Kohl, the West German Chancellor, rejected the Soviet Union's proposals on German unification, reflecting a split in the Bonn coalition over Germany's future political sovereignty.

Mr Kohl risked a clear rift with Moscow by saying it would be a "fatal development" to clear up the internal aspects of German unification without simultaneously deciding that a united Germany would remain in Nato. Page 22

Army may intervene

A senior Soviet officer in Lithuania said that the army might have to intervene in the rebel republic if tension escalated.

Iraq claims trigger

President Saddam Hussein said that Iraq had obtained a sample of an American electronic capacitator – which the US says could be used as a trigger for nuclear weapons – and was making its own copies. Page 4

Roh to visit Japan

South Korean President Roh Tae-woo is to make his first official visit to Japan later this month.

Change of name

Estonia dropped Soviet Socialist from its name and adopted its old tricolor national flag in place of the red banner of socialism.

Moslems detained

Moroccan police detained about 2,000 Islamic fundamentalists who staged a peaceful demonstration outside a court house in the centre of Rabat.

Torture unabated

Torture and other human rights abuses continue unabated in Turkey six months after the government proposed new safeguards, according to a report by Amnesty International.

New Italian force

Italian politicians struggled to adjust to the arrival of a new right-of-centre political force after the weekend local elections. Page 3

Oil slick risk

A 24km oil slick threatened to pollute the coast of southern Portugal, after crude oil leaked from a Cypriot tanker at the port of Sines.

Ship fire kills one

A fire broke out aboard the guided-missile destroyer USS Conyngham about 129km off North Carolina, killing a crew member and injuring at least 12 others.

Censure threat

The French Government is facing the most serious threat from a censure motion in the two years since it came to power. Page 3

No early release

A top pro-Iranian leader quashed hopes for the early freedom for 15 western hostages in Lebanon, blaming US intransigence. Page 4

Military claim

Angolan rebels said they had pushed back government troops near the strategic town of Mavinga in the south-east, killing 139 soldiers. Page 4

Blockade in Pacific

Papua New Guinea announced an economic blockade of the mining island of Bougainville after talks with local pro-independence rebels collapsed. Page 4

Quarry fall kills 60

A tin quarry collapsed in eastern Zaire, killing 60 people. Rescue workers, who dug down 20 m, recovered 20 bodies.

Irish Cardinal dies

Cardinal Tomas O'Fiaich, the Roman Catholic primate of All Ireland, died in Lourdes, France, during a pilgrimage.

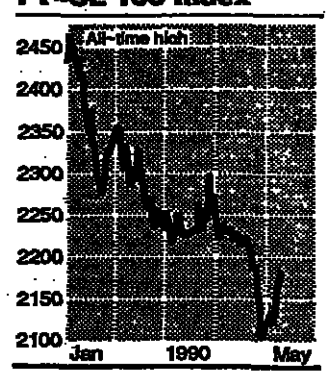
Business Summary

W Germany 'needs tough laws' to curb insider deals

West Germany needs tough and enforceable laws on insider trading and the disclosure of shareholdings if it is to develop properly as an international financial centre, Mr Hilmar Kopper, the chief executive of Deutsche Bank, said. Although the present situation was "better than nothing," Mr Kopper said Frankfurt's growth as a financial centre required a legal solution with proper penalties. Page 22

SHARE PRICES on the London market bounded ahead with the FT-SE 100 Index moving closer to 2,200 and extending the rally which began last week. By the close the index had clawed its way back to levels last seen before it suffered from such damaging events as Hoylake withdrawing its bid for BAT, the Midland Bank profits warning and the March trade figures. Market report, Page 39; World stock markets, Page 47; Lex, Page 22

FT-SE 100 Index



ROLLS-ROYCE, UK aero-engine company, has won a $600m order to supply engines for the entire Boeing 727-100 fleet of United Parcel Service, the US package freighter company. Page 22

ROBECO, Dutch group which operates Europe's third largest investment fund business with assets of around $22bn, is setting up a bank in Switzerland. Page 28

ERICSSON, Swedish telecommunications equipment group, announced first quarter 1990 pre-tax profits 93 per cent up from SKr609m ($100m) to SKr1.18bn. Page 23

FERRANTI Defence Systems, UK group, has won the contract for the European Fighter Aircraft's radar system, worth over £1bn ($1.67bn). Page 22

BUSH Administration proposed legislation allowing companies operating in the US to engage in joint production ventures without fear of anti-trust actions. Page 9

CHILE'S overheated economy is responding to the Central Bank's restrictive monetary policies said Finance Minister, Mr Alejandro Foxley. Page 9

EAST GERMANY admitted it broke western technology transfer rules to produce its own 1 megabit chips. Page 22

AUSTRALIA'S re-elected Labor Government has produced an ambitious programme of economic reforms with tight spending controls. Page 4

HONGKONG and Shanghai Bank: problems with overseas offshoots continued, as James Capel, London stockbroker, suffered a £7m ($11.7m) net loss in the first quarter, and Marine Midland Banks of New York needed cash injections totalling $300m. Page 23

THE PHILIPPINES expects the release of about $430m in new loans from foreign commercial banks soon. Page 4

NICARAGUA devalued its currency 10 per cent against the US dollar on the official market and 2.8 per cent on the parallel market. Page 9

US MARKETS: We regret that due to technical difficulties, some US stock prices have not been updated for this edition.

IMF links 50% resources boost to debt clampdown

By Peter Norman, Economics Correspondent, in Washington

A 50 per cent increase in the International Monetary Fund's resources was agreed yesterday by the IMF's policy-making Interim Committee.

But the agreement was made conditional on the adoption of a tougher policy against countries in arrears to the Fund.

The deal, reached after finance ministers thrashed out the details in negotiations lasting until the early hours, will lift the IMF's quotas or membership fees to SDR135bn ($175bn) from SDR90bn.

The IMF's member countries are supposed to approve and put the increase into effect before the end of next year. But implementation will go ahead only if they also agree by the same date to an amendment of the IMF's articles permitting the suspension of members guilty of willfully staying in arrears with the Fund.

The agreement, which also involves Britain's move from number two to number four in a rejigging of the rankings of IMF members, represented a substantial victory for US diplomacy.

The 50 per cent quota increase will be smaller than that sought by majority of the Fund's members and Mr Michel Camdessus, the IMF managing director.

Most members would have supported a two-thirds increase in quotas while Mr Camdessus started the lengthy three-year negotiation over the increase in Fund resources with a demand that they be doubled.

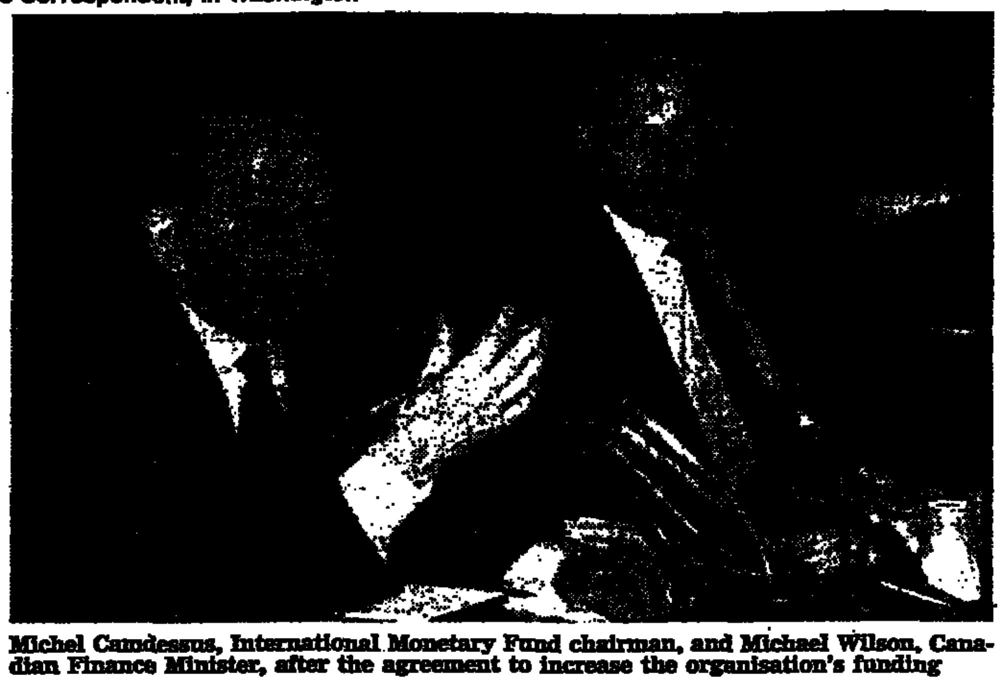
The linkage of the quota increase to the new policy on arrears also met US aims and was approved after stiff opposition from some developing countries such as India and Nigeria. The amendment could make final approval of the quota increase more difficult to achieve because it will require the support of 85 per cent of the IMF membership.

Only in one significant respect did the US not get its way. The committee agreed that the next review of quotas should be conducted by the end of March 1993. Earlier, Mr Nicholas Brady, US Treasury Secretary, had urged that the end of 1995 should be the deadline for the next quota review.

A US Treasury official suggested yesterday that this

Continued on Page 22

Debt relief strategy finds favour; Poland hopes to cut service obligations; Britain warns over aid, Page 8



Michel Camdessus, International Monetary Fund chairman, and Michael Wilson, Canadian Finance Minister, after the agreement to increase the organisation's funding

Fresh start on the arrears problem

AGREEMENT on a new strategy to deal with arrears owed to the International Monetary Fund marks a fresh start in dealing with a problem that has been of growing concern to virtually all IMF members, Peter Norman reports.

For although the $4bn total of overdue obligations owed by 11 poor developing countries to the IMF appears small compared with the $1,300bn of Third World debt outstanding, the growth of arrears and their persistence has increasingly cast doubt over the IMF's status as the central pillar of the world's monetary system.

Not only do the arrears represent a burden on the Fund and its members, they are also the most visible evidence of how the IMF has acquired – albeit involuntarily – some attributes of a provider of long-term development finance.

Until now, the only sanction that the IMF has had against a country persistently in arrears has been to expel it.

This measure has been considered so drastic it never has been used.

The agreement, reached after protracted negotiations on Monday, is designed to encourage countries to "work out" their arrears and incorporate into the Fund's articles the less far-reaching punitive element of suspension from the IMF of a recalcitrant member.

It will require 70 per cent of Fund members to approve an individual suspension, which effectively will deprive that member of its voting rights.

The overall approach, which will require approval by 85 per cent of the membership before it can take effect, will allow a Fund member in arrears to earn a claim towards future financing that can be used towards settlement of its arrears.

Largely at US insistence, the scheme has been crafted to avoid the impression that a country receiving help is being bailed out by the IMF.

The problem country will be expected to pursue sound economic policies to redress its problems. If it makes progress, it may be able to borrow the low interest resources of the Enhanced Structural Adjustment Facility (ESAF), a pool of cash contributed by a number of wealthy IMF members that does not technically count as part of the IMF's resources.

Originally, the US proposed that IMF gold be sold to provide money for helping the countries in arrears but this was blocked by Germany and some other countries.

Instead, it has been agreed that the Fund should be prepared to pledge up to 3m ounces of gold as security in case a nation being helped from the ESAF fails to meet its obligations.

To strengthen the Fund further, members have agreed to raise SDR1bn ($1.3bn) over five years through increases in charges it levies for exchanging currencies and on the interest rates set by the Fund on its borrowing and lending.

This so-called "burden sharing" arrangement will cost creditor countries three times the amount levied on borrowers. The IMF's policy-making Interim Committee agreed that the arrears amendment should be agreed before the end of 1991 as a precondition to the planned 50 per cent increase in the Fund's quotas or membership fees.

It remains to be seen whether the new provisions can solve the IMF's arrears problem. Yesterday, Mr Pierre Bérégovoy, the French Finance Minister, had no doubts it represented an improvement on existing rules. "It is not excessively strict but it recalls that we all have rights and obligations in the institution," he said.

Hungary seeks bridging finance from BIS

By Stephen Fidler in Washington

REFUSAL by some of Hungary's short-term bank creditors to renew credit lines to the country has prompted the Government to request short-term bridging finance from the Bank for International Settlements.

The move followed the declaration by Bulgaria in March that it would freeze repayments of principal to banks - although that decision had been partly blamed on the banks' deciding to pull out of credit lines to Bulgaria.

The move reflects the nervousness of banks about the prospects for debt problems in east Europe and underlines the difficulty of encouraging them to lend in support of economic reform.

The request for bridging finance, confirmed by European monetary officials in Washington, appears to be viewed favourably by most central banks. The BIS, the central banks' bank, can only extend such loans when there are agreed IMF or World Bank credits to which the BIS loan can be bridged.

Hungary is negotiating a structural adjustment loan with the World Bank, designed to help finance economic reform, and a co-financing between the World Bank and other creditors.

The new Hungarian Government has repeatedly underlined its intention to meet its debt obligations, despite calls from some candidates in the March election campaign for it to seek debt relief.

Hungary's foreign debt of about $20bn gives it the highest debt per head of the population in eastern Europe, although it has never rescheduled.

Government officials have expressed confidence that it can refinance principal repayments due over the next five years of about $2bn annually and cover its annual interest bill of about $1.4bn.

Officials point out that the difficulties prompted by commercial banks are offset, to some extent, by more favourable than expected balance of payments conditions so far this year. Mr Ferenc Bartha, president of the National Bank of Hungary, is in Washington for the spring meetings of the IMF and World Bank.

In 1982-83 the country rode out a liquidity crisis with the help of a bridging loan from the BIS of $610m.

Gorbachev orders Red Army to fall in with perestroika

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev yesterday demanded immediate reforms in the armed forces as the Soviet military establishment prepared for a show of strength across the country today to commemorate Victory Day over Nazi Germany.

Mr Gorbachev insisted that perestroika must include the Red Army and sharply attacked the war record of Joseph Stalin, who remains a hero to many of the older military generation.

"We are far from being satisfied with the current situation in the army," said Mr Gorbachev in a reference to poor conditions and discontent. "And of course it also cannot be beyond the pale of criticism."

He rounded on Stalin's war record, saying the former leader had ignored reliable warnings of the German attack. "Those who were inclined to trust their common sense he stigmatised as provocateurs and enemies of the people," he said.

Tension between the civilian authorities and the military has become increasingly evident in recent weeks – another military commander warned yesterday of possible army intervention in Lithuania to prevent the republic's secession.

Lt-Col Valery Shorupov, deputy commander of the Soviet Army garrison in Vilnius, the Lithuanian capital, called for presidential rule to be introduced to avoid bloodshed in the republic and warned that the army might be "pulled into the whirlpool."

In the Kremlin on Monday, Mr Gorbachev had faced stark criticism from serried ranks of wartime veterans who were demanding a ban on alternatives to the Communist Party and a return to strong discipline from the Soviet leadership.

The veterans called for a crackdown on "anti-socialist forces" and a ban on "the formation of parties and organisations contrary to the constitution of the USSR and the socialist system."

The Soviet President has given the go-ahead for a big military parade through Red Square today, as an apparent sop to the discontent in the armed forces. It is expected to include about 100 more vehicles than the low-key

Continued on Page 22

Picture, Page 2

Brussels seeks early agreement on VAT collection compromise

By Lucy Kellaway in Brussels

THE EUROPEAN Commission yesterday put forward its compromise on how value added tax should be collected once border frontiers have been abolished.

It also warned that the 1992 deadline for removing frontiers would be missed unless member states agreed quickly on the compromise.

The scheme would allow member states to continue collecting VAT until 1996 in the country where the goods are consumed, with goods zero rated for export within the Community, as at present.

The existing system of customs checks would be replaced by a system of fiscal control, designed to cut the administrative burden on companies and provide effective checks against fraud. At the end of the transition period, the system would be altered more fundamentally, with the tax collected at every stage of the production chain, as within a single country.

The transitional arrangements were given a warm welcome by the UK, which had been arguing for a similar system for several years. Mr Brian Unwin, head of the customs and excise, said that they would involve companies in much less paperwork and would provide a boost to intra-EC trade. They would also provide an effective control against fraud and obviate the need for Community-wide harmonisation of tax rates.

However, France, which had suggested a more cumbersome system of its own, is believed to be unhappy with the Commission's ideas.

While most member states are likely to agree in principle to the first stage of the plan, many are unhappy about making any firm undertaking now to move to a new system after 1996.

The UK argues that there is no need to change the system twice, and that if the transition arrangements work they should be made permanent.

The Commission had originally proposed that the shift to a "country of origin" system should happen at the beginning of 1993, but had to drop the idea in the face of unanimous opposition from member states.

Under the plans all frontier checks on goods would be scrapped at the end of 1992, and with them would go the cumbersome Single Administrative Document, a 50 question form that exporters have to fill in for every consignment. In its place most companies would be required to supply monthly information on the total value of their imports and exports within the Community. In addition, large companies would have to complete a monthly form requiring 10 further pieces of information.

"Large" companies would be defined statistically to catch the 15 to 20 per cent of European companies which make up some 80 per cent of Community trade. In order to protect against fraud, member states would be responsible for collecting information relating to their own companies, which they would be required to submit on request to other countries, usually within three months.

CONTENTS

Religious beliefs in Malaysia focus ethnic tension

Dr Mahathir Mohamed, the Prime Minister, continues to fan his party's image as a magnanimous political brother; and, before a national audience, continues to present Islam's moderate face. Page 6

MARKETS

STERLING
New York closing: $1.6705
London: $1.6695 (1.66)
DM2.7675 (2.775)
FFr9.30 (9.3125)
SFr2.3925 (2.3975)
Y263.50 (262.75)
£ index 87.6 (same)

GOLD
New York: Comex Jun $371.5
London: $369.50 (370.25)

N SEA OIL (Argus)
Brent 15-day Jun $18.925 (18.475)

Chief price changes yesterday: Page 23

DOLLAR
New York closing: DM1.65745
FFr5.5665
SFr1.4316
Y157.55
London: DM1.6580 (1.6715)
FFr5.5725 (5.61)
SFr1.4330 (1.4445)
Y157.85 (158.35)
$ index 67.7 (68.0)
Tokyo close: Y158.05

US closing rates
Fed Funds 8¼%
3-mo Treasury Bills: yield: 8.04%
Long Bond: 96⅛
yield: 8.82%

STOCK INDICES
FT-SE 100: 2,182.0 (+19.8)
FT Ordinary: 1,710.1 (+13.3)
FT-A All-Share: 1,078.89 (+0.8%)
New York closing: DJ Ind. Av. 2,733.56 (+11.94)
S&P Comp 340.40 (+2.1)
Tokyo: Nikkei 30,970.58 (+14.31)

LONDON MONEY
3-month interbank: closing 15⅛% (15⅛)
Life long gilt future: Jun 80⅞ (80⅞)

EUROPEAN NEWS

Brussels sets targets for talks on future of Efta

By David Buchan in Brussels

THE European Commission yesterday set itself goals for forthcoming negotiations with the European Free Trade Association which could break or re-make its negotiating partner.

The proposals must go to EC foreign ministers for approval early next month, before the long-heralded negotiations can begin on the creation of a 19-state European Economic Space (EES) between the 12 EC member states and the six Efta members – Finland, Sweden, Norway, Iceland, Austria and Switzerland – plus Lichtenstein.

The talks could either remould Efta into a supranational organisation or lead to a rash of applications by its members to join the EC.

The trickiest part of the attempt to let goods, services, capital and even, to some extent, labour flow freely around a market of 350m people is for both sides to agree to common rules governing the EES without compromising their sovereignty.

Brussels is proposing that Efta members can, through special joint consultation bodies, help "shape, but not make" Community decisions. Thus the Commission's proposed negotiating mandate states that every aspect of the Community's decision-making autonomy must be protected, including that of the European Parliament.

Mr Jean-Pierre Cot, leader of the Socialists, the largest group in the parliament, this week warned that giving Efta a say in EC law-making would undermine democratic control. The Strasbourg parliament would be deterred from amending legislative proposals that had been already been agreed with Efta, he complained.

The Commission also says that Efta members will have to give their organisation powers to control trade-distorting state aids and restrictive business practices equivalent to those which Brussels wields over the Twelve, so that "equal competitive conditions" are achieved.

However, some EC diplomats have criticised the Commission for taking too long in setting over-ambitious goals.

One diplomat said: "It is not the Community's job to tell Efta how to fulfil its obligations, nor is it right for the Commission to urge that a mini-Commission be established in Geneva" – where the relatively tiny and powerless Efta secretariat is located.

A third contentious issue in the negotiations concerns Brussels' demand that Efta treat third countries in some areas just as the Community does. Otherwise, the Commission worries, Efta could undermine the reciprocity provisions in EC legislation, particularly on financial services.

Britain and Austria yesterday agreed it was unrealistic to pursue Austria's application for membership of the European Community before completion of the single European Market at the end of 1992, writes Robert Mauthner.

In informal talks in London, Mrs Margaret Thatcher, the UK Prime Minister, told Dr Franz Vranitzky, the Austrian Chancellor, that the EC had too much on its plate to envisage an enlargement of the Community.

Dr Vranitzky emphasised, however, that Mrs Thatcher had adopted a fundamentally positive attitude towards Austrian membership. This was confirmed by Mr Francis Maude, British Minister of State for Foreign Affairs, who told Austrian television he would be "surprised" if Austria was not part of a much larger Community by the end of the century.

Companies' plans 'affected by E Europe'

By Tim Dickson in Brussels

SEVENTY per cent of top American and European companies have re-thought their business plans in the light of recent events in eastern Europe, according to a survey published yesterday by business advisers KPMG.

Almost one third admit to having "substantially" reworked their strategies.

Interest is keenest in the opportunities in East Germany, Hungary and Czechoslovakia – with Poland ahead of the Soviet Union – but companies generally do not expect an early contribution to their bottom line.

The conclusions are based on telephone interviews with the chief executives of 50 US companies and 58 European companies conducted during March and April after the elections in East Germany.

Around a fifth of the respondents on both sides of the Atlantic were financial institutions.

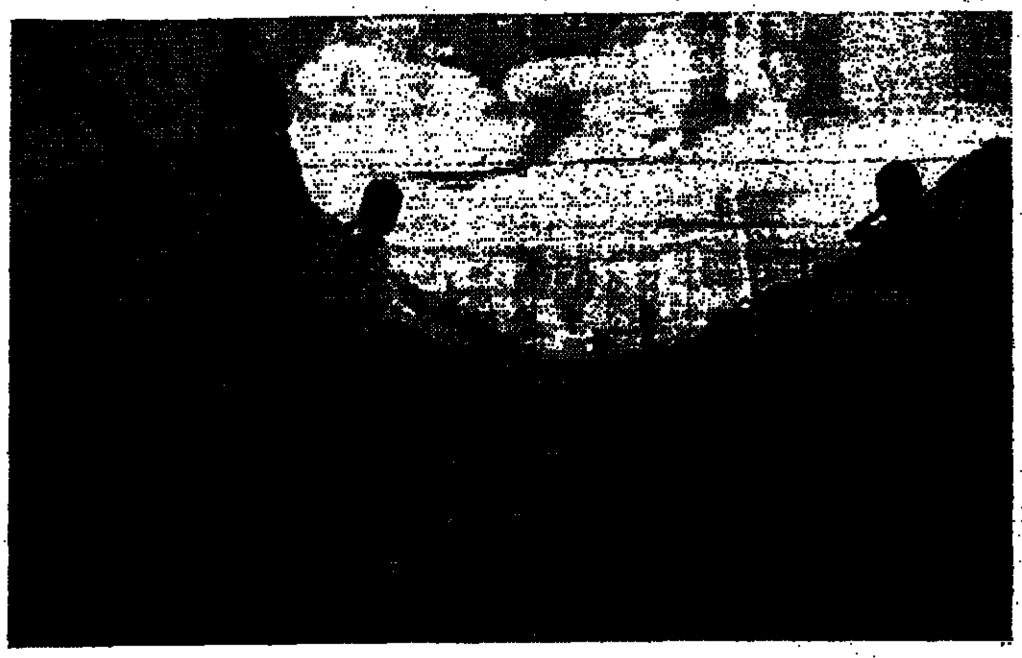
Differences of view are expressed on the impact on the single European market, with around one half of the American companies suggesting that integration will be speeded up by changes in the east and nearly one third of European businesses seeing a slowdown.

Mr Scott Cormack, head of the Brussels-based European Business Centre of KPMG, said: "Major companies in the US are more interested in eastern Europe than in non-EC west European countries.

"Only 12 per cent of US and 19 per cent of top European companies said they planned to extend trade in countries such as Switzerland, Austria, Sweden, Norway and Finland."

On the profit potential from the East, around half the US companies said they expected expansion in eastern Europe to add only $10m (£6m) to their total business over the next three years.

European companies, on the other hand, were more optimistic, with 28 per cent forecasting contributions of $25m and over (against just 10 per cent from the US sample).



Troops and armoured vehicles from the Soviet garrison in Vilnius, the Lithuanian capital, line up in preparation for the traditional Victory Day military parade today. A senior Soviet officer in Lithuania said the army might have to intervene if tension increased in the breakaway Baltic republic and he called on President Mikhail Gorbachev to take over its running from the Kremlin. In London, Mrs Kazimiera Prunskiene, the Lithuanian Prime Minister, appealed to Britain to support her republic in its independence struggle. In the sister republic of Estonia, the parliament yesterday voted overwhelmingly on a name change to Republic of Estonia from the Estonian Soviet Socialist Republic. Deputies also agreed to restore the pre-war coat of arms at the expense of the hammer and sickle.

Marshall aid money to help E Germany

By David Buchan
Brussels

THE EUROPEAN Commission yesterday approved West Germany's decision to use money piling up under the old post-war Marshall Plan aid to spur investment in East Germany, provided the interest rate subsidy scheme is open to all European Community companies, not just German ones.

Money available from the fund, used mainly to bolster investment in West Berlin latterly, will total DM6bn (£2.16bn) over the next four years.

The aid takes the form of 15-year loans with interest rates of two percentage points below market levels and a five-year grace period on repayment.

It is designed to respond to pressing East German needs in starting up new businesses, cleaning up the environment, modernising industrial plant, and helping new tourist ventures.

Non-German companies can apply for the subsidised loans, but must do so through banks in West Germany, including the branches of foreign banks there.

In response to fears by Bonn's EC partners that West Germany is stealing a march on them in the East German market, the Commission has pressed for the West German Marshall aid to be opened to anyone ready to invest in East Germany.

● East Germany and Bulgaria yesterday signed 10-year trade and co-operation agreements with the European Community, phasing out quotas on their exports to the EC by the end of 1995.

The EC-East German accord will only last, in fact, until East Germany joins West Germany, and therefore the EC, probably sometime next year.

But Mr Gerhard Pohl, the East German Economics Minister, said his country would use the consultation procedures in yesterday's accord to ensure that Brussels was fully briefed on the current negotiations on union between the two Germanys.

US seeks to block progress on emissions

THE US is claiming the support of Britain, Canada and the Soviet Union in an attempt to block an international agreement to stabilise emissions of carbon dioxide, the main greenhouse gas, by the year 2000, writes John Hunt.

This was disclosed last night in a leaked telex sent by the Bush Administration to the US embassy in London setting out the American position at the environment conference which opened in Bergen, Norway, yesterday.

Mr Andrew Dilworth, of Friends of the Earth, the environmental organisation which obtained a copy of the message, said it exposed the "pathetically weak" international position of Mr Chris Patten, the British Environment Secretary. "The US is looking to sell our European partners short," said Mr Dilworth.

The Department of the Environment in London said: "It is nonsense to suggest any collusion between the UK and the US to confound any of the objectives of Bergen."

Green loan fund, Page 6

West German exports at record level in March

By David Goodhart in Bonn

WEST GERMAN exports reached a record monthly high in March, producing little sign of the reduction in the trade surplus expected this year, even though imports were at their second highest monthly level ever.

The total value of exports in March was DM60.95bn (£22bn), slightly higher than the previous record in June last year, while imports reached DM47.55bn.

Compared with March 1989, the value of exports rose by 11 per cent and imports by 12 per cent. But the trade surplus rose to DM13.4bn this March from DM12.8bn last March.

The surplus for the first quarter has risen to DM36.9bn from DM36bn.

The latest manufacturing order estimates – showing a 3 per cent rise from February to March – suggests that export-driven growth is not fading. Foreign orders rose 10.5 per cent but domestic orders were only 1.5 per cent higher.

● West German print workers have settled for an hours and pay package similar to that agreed at the end of last week for the 4m workers in the metal and electronics industries. Weekly hours will be cut from 37 to 35 in one step in April 1995, a few months before the metal industry. Print workers have also won a 6.8 per cent annual pay rise.

But industrial action which accompanied negotiations in the metal and print industries has not completely subsided; postal workers are stepping up warning strikes in pursuit of longer breaks in one of the first big tests of the new postal management since the changes accompanying the reform of the Bundespost last year.

● East Germany is expected to adopt the West German tax system on January 1 1991, according to Mr Martin Maassen, the tax expert in the East German Finance Ministry. Some taxes, such as value-added tax and other consumer taxes, will come in sooner, with the economic and currency union expected in July.

Turkey accused of torture

TORTURE and other human rights abuses continue unabated in Turkey six months after the Government proposed new safeguards, according to Amnesty International.

"In early 1990, thousands of people remained imprisoned for political reasons, including hundreds of prisoners of conscience convicted for their non-violent political or religious activities," the human rights organisation said.

"Among them are members of political organisations, trade unions and Kurdish groups as well as journalists and religious activists. The use of torture continues to be widespread and systematic, in some cases resulting in death."

Turkey ratified the UN Convention against Torture in 1988.

Albania signals further move to end isolation

By Judy Dempsey

ALBANIA yesterday edged further away from isolation when Mr Adil Carcani, the Prime Minister, said his country would join the Conference on Security and Co-operation in Europe (CSCE).

In a speech reported by the official news agency, he said "our concern and commitment in the cause of peace, security and fruitful co-operation among the European states remains permanent... [from this] stems our desire to join the process of European co-operation and security and render our possible contribution to its progress."

Albania was the only European country to remain outside the 35-member CSCE, formalised in 1975 after European nations, together with the US, Canada and the Soviet Union, signed the Helsinki Final Act.

The act provided a framework for strengthening security and co-operation in Europe through improving human rights and economic contacts between east and west.

Mr Carcani's announcement comes just three weeks after Mr Ramiz Alia, head of the ruling Communist Albanian Labour Party, said Tirana hoped to re-establish relations with Washington and Moscow. This is expected to be discussed with Mr Javier Pérez de Cuéllar, the UN Secretary General, who arrives in Tirana on Friday.

EUROPEAN NEWS

Market winds blow through once walled-in industry

East Germans await shake-up that will come when economic union is forged, writes Andrew Fisher

WITH German currency and economic union set for July 2, the change in East Germany from communist rigidity to free market will be bewilderingly swift. As factories are modernised or closed, jobs will go – estimates range upwards of 1.5m – and others will spring up as new businesses develop. Nobody knows how East Germany will make the switch, even with West German help.

A quick tour round an East German plant shows why much of industry is desperate to link up with the West. In Eisenach, the ageing Wartburg car factory in the middle of the town looks light years away from the efficient plants in West Germany.

Opel, owned by General Motors of the US, has agreed an outline deal with Eisenach under which more than 150,000 Opel cars a year will be produced by 3,500 people. At the moment the East German plant makes 75,000 cars with 9,200 people.

"We have been mentally and physically walled in," says Mr Siegfried Schiller, deputy director of the Manfred von Ardenne scientific research institute in Dresden. Taking an extreme view, he reckons 75 per cent of the *kombinate*, the industrial groups, will not survive and that unemployment could exceed 4m.

Others are less pessimistic. Mr Andreas Manksch, deputy head of the Dresden regional council, expects unemployment to be nearer 2m, insisting that economic rebuilding should provide work for all. "Not everyone can keep their present job, but they will be able to have a job. There will be a huge structural shift."

The probable extent of this shift to the free market can be seen in Eisenach, where much work is still done by hand. Not Opel, VW, nor Mercedes-Benz, co-operating with IFA on trucks, will be able to employ all the workers in the various plants when their agreements take effect.

The West Germans intend to help develop supply industries; IFA, like other kombinate, now makes most of its own parts. At Eisenach, many lost assembly jobs can be recreated when the plant's machinery and parts sections become part of a normal supply industry. The 650 workers from Cuba and Mozambique will return home. But that will still leave a big local unemployment problem, and the change for those who keep their jobs will be enormous.

Eisenach has a taste of the future with a modern plant to produce cylinder heads for engines made by IFA on equipment from VW. Located outside the cramped town centre, the site has plenty of room for expansion. It is here that a new plant for the Opel cars is envisaged in 1993.

East Berlin's state planners, headed by Mr Günter Mittag, held the car industry back. Providing for the consumer was a low priority. As Mr Manksch points out, there was an exaggerated emphasis on sectors such as electronics, precision engineering, and energy.

The threadbare economy these policies created is all too apparent. While the car is one of West Germany's most successful products, the lowly Trabant is the most common vehicle on East German roads. Like the more solid Wartburg, it is rapidly being displaced by second-hand western models.

Under Mr Mittag's unyielding hand, the kombinate were forced into a degree of autarky which has left them ossified and vulnerable. Since 1972, they have absorbed most small businesses.

In the Dresden region, says Mr Mauksch, there were 2,445 independent companies in 1960, nearly half in private ownership. Now there are less than 450. The others were shoehorned into the kombinate. But there were no efficiency gains; the change was organisational. Until 1972, these companies made up East Germany's version of the Mittelstand, the small businesses that form the backbone of industry in West Germany. Today, many former owners of these nationalised companies want them back. Budding East German entrepreneurs clamour for information about running businesses.

Overcoming the years of hardline planning will be gruelling. Because the East German economy was cut off from the West, companies often had to duplicate development work done elsewhere.

For instance, says Mr Hans Fischer, head of Robotron Messelektronik which makes measuring equipment, "we had to develop certain microprocessors ourselves. We couldn't buy them."

At the opening of a DM200m (£72m) printed circuit board plant, Mr Fischer said his company, part of the big Robotron electronics kombinat, would be better off alone. Like the rest of the group, his unit wants western partners and has one co-operation deal with Philips of the Netherlands. He admits the plant, near Dresden, would never be built today. The idea was to save on imports. But the free market will expose it to the blast of competition.

For the first year, the plant will supply local and Comecon needs. But then it will compete with Asian and other producers. Mr Fischer knows his company has too many workers by western standards. It employs 4,600, but after currency union, he reckons it will have to cut back as costs rise. Many employees will find work with new supply companies. But that will still leave about 1,000 out of work.

WESTERN CHEMICAL COMPANIES TREAD CAUTIOUS PATH OVER INVESTMENT IN EAST

WEST GERMAN chemical companies are taking a cautious line about investing in East Germany because of the country's environmental and economic problems, according to Mr Hermann Strenger, chairman of Bayer, one of the three leading German chemical groups, writes David Marsh in Leverkusen.

Delivering a sobering picture of the East German chemicals sector, he said the worst-off part of East German chemicals, depending on lignite as a feedstock, would have to be shut or heavily restructured. This part of the industry – accounting for roughly 30 per cent of the country's chemicals – was condemned by unfavourable sites, outdated technology, and safety and environmental problems.

He said, however, that other areas of East German chemicals – above all petrochemicals, accounting for about 40 per cent – often had modern plant and equipment and could become competitive on western markets.

Mr Strenger is also president of the West German Chemicals Association.

He made clear that, even after unification, Bayer was looking at East Germany above all as a market for products and technology rather than as a potential source of production. "This reluctance (to invest) does not apply only to Bayer. It applies to the whole of the German chemicals industry," he said. However, Bayer was building up its sales and counselling network in East Germany and discussing co-operation with companies in areas like pharmaceuticals, information technology and insecticides.

Mr Strenger underlined that "large scale investment" was needed in East Germany to clean up contaminated industrial sites. Putting up the sums of money for this challenge was the task of government, not of private companies.

Censure motion threat to French Government

By William Dawkins in Paris

A BELEAGUERED French Socialist Government today faces the most serious threat from a censure motion in the two years since it came to power, although it is expected to avoid defeat narrowly.

The motion, tabled by the three centre-right opposition parties, will be considered today by the other main opposition force, the Communist Party, which is as yet undecided. The combined forces of non-Socialists would unseat the minority Government. The Communists bailed out the Socialists in three previous censure debates, but their loyalty is less certain this time.

In another expression of the declining popularity of President François Mitterrand and his policies, post and telecommunications workers are planning a strike and demonstrations in central Paris today. They are protesting against the separation of post and telephone services.

Opinion polls attribute the decline in the President's popularity to people's perception that he is too keen to hoist France's international profile at the expense of ordinary voters' interests. He is also blamed for failing to heal personality rifts within his own party.

The censure motion, to be debated in parliament today and tomorrow, brings to a head a murky 18-month controversy about underhand methods used by most political parties to raise election funds.

Earlier this year, the Government tried to make a fresh start, with a tough new law on party funding. Tacked on was an amnesty for earlier offences, but specifically excluding politicians and those who had personally gained from corruption. What has enraged the opposition is that the amnesty has in practice had precisely the opposite effect – that of clearing politicians and condemning party supporters.

Only last month, a court unwillingly declared that a minister in a former Socialist Government, Mr Christian Nucci, charged with financial corruption, had no case to answer. Later, another court found against nine consultants and company directors charged with using dishonest methods to raise party funds.

New proposal over status of Airbus

By Paul Betts, Aerospace Correspondent

BRITAIN AND West Germany are studying new proposals to transform Airbus Industrie, the four-nation European aircraft manufacturing consortium, into a public limited company (PLC).

Professor Roland Smith, chairman of British Aerospace, and Mr Edzard Reuter, the head of Daimler-Benz, the West German parent of Messerschmitt-Bolkow-Blöhm (MBB), are understood to have commissioned a report on changing Airbus Industrie's special legal status.

The plan would be to transform the consortium from a French Groupement d'Intérêt Economique (GIE), a form of partnership without the same accounts disclosure obligations of normal companies, into a British PLC or its French or West German equivalent.

BAe and Daimler, the two private sector partners in Airbus, have both argued in favour of accelerating the process of turning Airbus into a more transparent and commercially oriented enterprise. But Aerospatiale, the French state-controlled partner, has been cool to the idea. It appears worried that its leading position in Airbus may be undermined.

The four Airbus partners are Aerospatiale and MBB with 37.9 per cent each, BAe with 20 per cent, and Casa of Spain with 4.2 per cent.

A report last year recommended changes in the Airbus structure to make it more transparent and streamline its management.

Mr Hans Friderichs, the chairman of the Airbus supervisory board, has also recently come out in favour of a change of status. "In view of its large production volumes, Airbus needs more transparent accounting procedures and a shorter decision-making circuit," he said.

He suggested that Airbus be transformed into a holding company based either in France or West Germany or embracing some broader European status. Each member should set up a separate subsidiary to bring together all its Airbus activities. (BAe and Daimler have already done this.) These would then be linked to the new holding company.

Apart from likely French opposition, the change of status is expected to face problems. These include the need to capitalise the new PLC and allocate assets which currently constitute the bulk of each partner's commercial aircraft operations.

Regional party alters the face of Italian politics

By John Wyles in Rome

ITALIAN politicians were yesterday struggling to adjust to the arrival of a new right-of-centre political force. The Lega Lombarda robbed votes from all the established political parties at last weekend's local elections to become the second largest party in its native region of Lombardy.

Analysts are convinced the Lega is more than a passing phenomenon and that it could go on to realise its ambitions to build a new popular movement throughout the north and centre of the country in alliance with other regionally-based leagues.

More a movement than a carefully organised political party, the Lega captured 19 per cent of the vote in Lombardy and around 13 per cent in Milan, having given a strong warning of its steady mobilisation when it polled 8.1 per cent in last year's European Parliament election. It also polled 5-6 per cent in the Piemonte and the Veneto, whose separate local leagues also advanced to 5-6 per cent shares of the vote.

At a practical political level, the advance of the Lega Lombarda will greatly complicate the formation of local administrations at regional, provincial and communal levels in one of Italy's richest and most populous regions. In many cases, the main national governing parties, the Christian Democrats, Socialists, Social Democrats, Republicans and Liberals will be forced to turn either to the Greens or Communists, or both to form majorities.

Many national leaders were reluctantly accepting yesterday that the onward march of the local leagues reflects a gathering protest against the established governing parties in the absence of any credible alternative to their regime. The near collapse in the Communist Party's support from 30 per cent five years ago to 24 per cent makes it a distant prospect as an alternative government.

While the Lega Lombarda's policies lack clear definition, they favour a more federal system of government, arguing that Rome is dominated by southern politicians who waste the region's wealth on grandiose and corrupt schemes for developing the Mezzogiorno. The racist overtones to its anti-southerner strategy are supplemented by calls for the repatriation of Third World immigrants without established jobs.

Among the governing parties, only the Socialists increased their vote compared to the same elections five years ago. This should help guarantee that the present Government, led by Christian Democrat Mr Giulio Andreotti, will stay in power until the first part of next year when an early general election is likely.

The commune of Palermo provided one of the most spectacular results where the DC increased its share from 40 to 48 per cent. This is seen as a personal success for the mayor, Mr Leoluca Orlando, despite the fact that his campaign against the mafia has seriously divided his local party.

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OVERSEAS NEWS

Korea's moon villagers suffer while real estate prices soar

Rising demand and land speculation have made the housing shortage the number one problem, reports John Ridding

THE reality of Seoul's Daldongnae, or moon villages, belies their romantic name.

So called because of their location on hills, the first places struck by moonlight, but also the last to receive utilities and water supplies, they provide housing for the poorest section of the urban population. Families live in a couple of rooms, usually less than 15 square metres each, and pay "key money" or a fixed deposit of Won 10m (£8,630) even for this.

A symptom of the massive urban migration which has swelled Seoul's population to more than 9m, the Daldongnae also demonstrate the nationwide and increasingly serious problem of South Korea's housing shortage and rising living costs.

"It is our number one problem," admits a senior official at the economic planning board. It is a focus for social discontent, fuels resentment about widening gaps in asset distribution, and exacerbates resentment from the have-nots. Trade unions describe it as one of the principal concerns facing their members, while the surge in real estate speculation and rental costs has fed the rising rate of inflation.

President Roh Tae Woo has also expressed concern. In an address to the nation this week, he said "rising housing prices have dashed the hopes of many citizens to own their own homes. Low-income families in particular have been greatly hurt by soaring rents."

THE South Korean Government yesterday announced its strongest measures yet to curb real estate speculation, ordering 49 leading business groups to sell surplus land by the end of the year, writes John Ridding.

The measures, which were announced by Mr Lee Seung Yun, the Minister for Economic Planning, also prevent conglomerates from buying new land. Businesses which fail to comply will be subject to fines and barred from obtaining new credit.

Real estate speculation has become one of South Korea's most pressing social and economic problems.

The Seoul stock exchange, which has rebounded strongly from its near collapse at the end of last month, gained 4.96 points yesterday to close at 796.54. Analysts said the fairly meagre gains reflected the fact that yesterday's announcement had been widely foreshadowed and had already improved market sentiment.

The amount of land which companies will be forced to sell is considerable. According to Yonhap, the official news agency, the 30 largest conglomerates own real estate worth at least $18bn (£10.77bn) However, it is not known how much is held for non-business purposes.

According to Mr Lee Kyu Hwang, director general of the Land Bureau at the Ministry of Construction, there are 1.2m people on the waiting list for small public apartments and 790,000 more awaiting private apartments. The Korea Development Institute estimates that the housing supply ratio, the total housing stock divided by the number of households, has declined from 78.2 per cent in 1970 to about 70 per cent last year. In Taiwan, the comparable figure is about 90 per cent, while in the US and Europe the ratio is generally over 100 per cent.

The crisis has arisen out of a combination of increased demand and limited supply of land and housing.

In addition to the underlying shortage of land resulting from Korea's mountainous geography, housing supply has been limited by regulations restricting the use of land and the price of new buildings. Strict ceilings have been placed on the price of new dwellings, reducing the incentives for builders, while taxation of idle land has been minimal.

Public supply of housing has also been limited. "In the 1970s and 1980s the Government put every effort into developing exports and the economy," says Mr Kim Kwanyoung of the Korea Development Institute. "As a result, housing was under-invested."

This has coincided with a sharp increase in demand. South Korea's rapid urbanisation, a result of its equally rapid industrialisation, has prompted massive migration to the cities. More than a quarter of the population lives in either Seoul or Pusan, with the other big cities accounting for most of the balance.

Other factors include the trend towards nuclear family units and increased corporate demand for land as industry seeks to expand into new facilities.

But both supply constraints and increases in demand have been exacerbated by rampant real estate speculation. Big business groups, seeking higher returns than the stock market and manufacturing investment can offer, have been particularly active.

According to government figures published last month, the 30 chaebols, the large business groups which dominate the economy, purchased land valued at between Won 3.8 and 5 trillion (million million) last year. Hyundai Group, one of the largest conglomerates, is estimated to own real estate worth Won 1.9 trillion.

The immediate effect of the limited supply, increased demand and speculation has been to prompt sharp rises in land and rental prices. According to the KDI, the first quarter of this year saw a 22 per cent increase in the average amount of deposits necessary for renting an apartment. In 1989, the average price of land in Seoul rose by over 30 per cent.

More fundamentally, however, the land and rental price rises have increased disparities in wealth and the gap between property owners and lessees. "The rich are getting richer and the poor are getting poorer," complains a Daldongnae resident.

Given the egalitarian nature of Korean society and the general unpopularity of the big business groups, such sentiments provide a source of social tensions.

The Government is responding in several ways. "This year we expect to build 450,000 houses — 200,000 of them public," says Mr Lee Kyu Hwang. "Our target for 1992 is 2m new homes, most of them under 25.5 pyong [one pyong is 3.3 square metres] so that ordinary workers can afford them."

Housing finance is also being improved. Funds made available for purchases and construction rose from Won 760bn in 1987 to Won 2.68 trillion last year. Private construction, too, is being encouraged. Restrictions on land use are being eased and the limits on new house prices are being removed.

At the same time, the Government is addressing the more difficult problem of curbing speculation. Legislation this year introduced a radical new concept of public land ownership. Land holdings are limited, to 660 square metres in central Seoul, and if this limit is exceeded the surplus land must be sold or a surcharge incurred.

Still more ambitious are plans to introduce capital gains taxes on land holdings, rather than just land transactions. This year, the 24m units of non-government land will be assessed for their value. On September 1, after an appeal period of a month, these values will be announced, providing a base for a tax on the land's increase in capital value. "No other country has tried such a scheme," says Mr Lee.

A more direct approach, announced in recent weeks, is to force the chaebol to sell surplus real estate holdings by the end of the year. The Government has said that if no purchaser is found it will buy the land itself at acquisition cost.

Despite this armoury of measures, however, many still doubt that the problem will be resolved. "We have enough tools," says a research analyst at the Korea Research Institute for Human Settlements, "but the tools are worthless without political will."

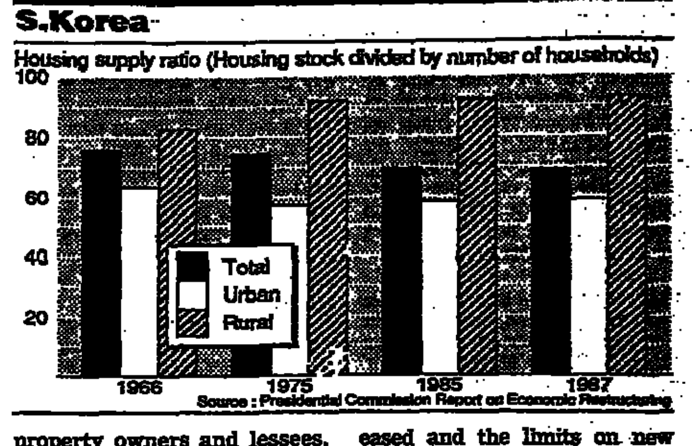
Part of the problem, he believes, is that those who will suffer under the proposed changes are influential in the decision-making and enforcement process. In addition, the previous attempts to resolve the problem have come to little, raising doubts about the Government's credibility. "The chaebol are a very powerful lobby and are adept at finding loopholes."

But others are less pessimistic. "Previous attempts have certainly failed," says one analyst, "but the Government does now seem to realise that the time for talk is over." President Roh's direct intervention is seen as evidence of a new-found government commitment.

Clearly, the problems cannot be quickly solved. All of the measures, from capital gains taxation to forced land sales will take months and even years to implement. In the meantime, the tensions arising from escalating rent and house prices are unlikely to diminish.

S.Korea

Housing supply ratio (Housing stock divided by number of households)



Source: Presidential Commission Report on Economic Restructuring

Labor plans economic reform for Australia

By Kevin Brown in Sydney

AUSTRALIA'S re-elected Labor Government yesterday set out an ambitious programme of economic reforms combined with tight spending controls for its fourth three-year term.

Details of the programme were outlined to the first parliamentary sitting since the March election by Mr Bill Hayden, the Governor-General, in a speech written by Mr Bob Hawke, the Prime Minister. Under Australia's constitution, Mr Hayden represents Queen Elizabeth, the head of state, when she is not in Australia.

Labor won 78 seats in the 148-member House of Representatives, an overall majority of eight, in spite of winning fewer votes than the conservative Liberal/National party coalition. The Liberals have 55 seats and the National Party 14. There is one independent.

Mr Hayden said the Government's priority was to maintain "the urgent and sweeping task of national reform" required to create a stronger economy and fairer society.

The Government plans a broad menu of structural reforms, including further reductions in trade protection, deregulation of domestic aviation, increased competition in telecommunications, a shake-up of land transport regulations, and labour market reform, especially among Australia's notorious waterfront workers.

Trade with New Zealand across the Tasman Sea will be a high priority. A merger of the Australian and New Zealand aviation markets is to be considered, and the Government wants to emulate cost cutting already achieved by New Zealand in shipping.

The reform programme is expected to get under way with the release today of a report recommending big changes in rail transport. Further reports on telecommunications and broadcasting are expected shortly.

The reform programme is widely regarded as overdue, and has broad support because of Australia's worsening economic problems. However, there are doubts about the Government's ability to overcome opposition among trade unions and to achieve agreements with some state governments.

Mr Hayden said the Government would maintain its tight fiscal stance and firm monetary policy, and expected significant reductions in the rate of inflation and the deficit on the current account of the balance of payments. He gave no timetable for the improvement.

The Government is likely to face an early challenge when it meets state premiers shortly to set spending and borrowing targets for the coming financial year, which starts in July.

My Hayden said the six states and two territories would be asked to accept cuts in spending and borrowing. The federal budget is already in surplus.

NZ 'blackmailed' by France

France "blackmailed" New Zealand into agreeing that two French spies convicted of the Rainbow Warrior bombing should serve their sentence on the French Pacific military base on Hao atoll, Mr David Lange, former New Zealand Prime Minister, said yesterday, Dai Hayward reports from Wellington.

"The French threatened to wreck New Zealand's farming industry," said Mr Lange. It would force EC restrictions on NZ's butter and lamb trade. The threats came "from the highest level".

Economic blockade for Bougainville

By Kevin Brown

THE Government of Papua New Guinea (PNG) yesterday announced an economic blockade of the mining island of Bougainville after talks with local pro-independence rebels collapsed.

Mr Ted Diro, the deputy Prime Minister, said only shipping and airline services carrying essential medical supplies and fuel for the island's hospital would be allowed. The banking and telecommunications systems have been ordered to close.

The announcement followed a statement from Kieta, the Catholic Commission for Justice and Peace, which accused the PNG Government of "a hidden agenda to destroy the peoples of Bougainville".

Mr Diro said a five-hour cabinet meeting had agreed to call out the PNG defence forces to enforce the blockade. He said there was no intention to land on the island, but the Government was anxious to have police there as soon as possible.

Mr Diro said the Government was ready to reopen "meaningful" talks. However, the Government will not discuss the rebels' main demand for secession from PNG.

In Canberra, the Australian Government announced that Mr Bob Hawke, the Prime Minister, will visit PNG next month. Australia also announced an additional A$20m (£9.09m) in aid to PNG to help replace lost income from the copper mine on Bougainville, closed by the rebels in May.

The announcement of Mr Hawke's visit follows rising tensions between Australia and PNG over criticism of the PNG Government by Senator Gareth Evans, Australia's Foreign Minister.

Mr Michael Somare, PNG Foreign Minister, said in response that he was "very concerned" about Australian comments made "without the benefit of details".

Twenty-one army rebels cheered defiantly when they went on trial yesterday in the first court martial of officers linked to December's bloody military attempt to overthrow Philippine President Corazon Aquino, Reuter reports from Manila. They included Navy Capt Danilo Pizarro (right), Brig Gen Jose Comendador and Brig Gen Marcelo Blando (right).

Defence lawyers immediately blocked the arraignment of the two generals and 19 other officers by challenging the authority of the seven-member military court to try the group on mutiny and murder charges.

When the military prosecutor suggested postponing the trial until legal issues raised by the defence were resolved, several defendants shouted "Yes!" and broke into applause.

A defence lawyer, Mr Oliver Lozano, walked out in protest at the exclusion of journalists and the defendants' relatives from the heavily-guarded courtroom.

The 21 defendants were the first officers to be tried in connection with the sixth and most serious army coup attempt against Mrs Aquino, in which 113 people died and 600 were wounded. Hundreds of other soldiers are being investigated.

Banks agree $430m Philippines loans

THE Philippines expects the release of about $430m (£257m) in new loans from foreign commercial banks around the middle of this month, Greg Hutchinson writes from Manila.

The amount drawn will represent the first tranche of the $714m in bonds which Manila is to issue to about 80 creditor banks. The country's total debt stands at $26.5bn.

The bonds issue results from the most recently debt reduction agreement with foreign banks. Under the deal, the Philippine Government also repurchased $1.3bn of the country's debt from commercial banks at a 50 per cent discount.

S African labour relations deal

By Philip Gawith in Johannesburg

LABOUR accords signed on Monday between the employers' federation, Saccola, and union groups Cosatu and Nactu will go a long way towards improving the industrial relations climate soured by the divisive 1988 Labour Relations Amendment Act.

The agreement on amendments to the act took more than two years to negotiate.

It will be forwarded to Mr Eli Louw, Minister of Manpower, "in the hope that it will be possible to debate and process the proposed changes during the 1990 session of parliament," a joint statement issued yesterday by the three parties said.

The act provoked a massive campaign of resistance from unions – in the process forging an unprecedented degree of unity between rivals Cosatu and Nactu. About 3m workers stayed away from work in protest against the amendments. Although initially supported by employers, it became evident that industrial harmony was not possible so long as the amendments remained on the statute book.

Changes in the agreements include removing the industrial court's right to forbid legal strikes and lockouts and a reversion to the pre-September 1988 definition of unfair labour practice. It also contains a set of basic worker rights, including the right to bargain collectively and the right to strike.

Commenting on the agreement Mr Naas Steenkamp, corporate affairs director at Gencor, said: "It has gone a long way towards legitimising our labour law, in which the people most affected previously had no say. I don't think we will again see labour law being made without the full involvement of employers and unions."

Iraq boasts of nuclear arms trigger

By Our Foreign Staff

PRESIDENT Saddam Hussein said yesterday that Iraq had obtained a sample of an American electronic capacitator – which the US says could be used as a trigger for nuclear weapons – and was now making its own copies.

In March, Britain and the US said they had seized 40 of the devices at London's Heathrow airport, foiling a plot to smuggle them to Iraq.

"Only five days after the US announcement about the so-called nuclear triggers, our fighters at the [Ministry of Industry and] Military Industrialisation succeeded in producing capacitators similar to those so-called triggers," President Saddam told Iraq political leaders.

The president displayed two of the Iraqi-made devices and what he said was an American sample.

"Can this detonate a nuclear bomb?" he asked. "I haven't seen a nuclear bomb... but this is one of the capacitators they talked about; they did not capture all of them."

Five people and two British companies were accused in the US in late March of conspiring to smuggle top secret nuclear weaponry to Iraq from the US. The indictment was passed down after a 18-month "sting" operation. Iraq denied it was making nuclear weapons and said it wanted the capacitators for laser research.

Yesterday there was no immediate statement on Mr Saddam's latest boast from London or Washington, but officials said they remained opposed to any Iraqi attempt to obtain equipment which could be used for nuclear weapons.

Baghdad has consistently surprised the West with its technological progress since the end of the Gulf war against Iran in 1988, and western officials were not sure whether Iraq had the ability to make such sophisticated electronic devices so quickly.

Hizbollah leader damps hostage hope

A TOP pro-Iranian leader quashed hopes yesterday for the early freedom for 18 Western hostages in Lebanon, blaming US intransigence, Reuter reports from Beirut. Mr Hussein Musawi, an Hizbollah (Party of God) leader, said the captives could be held beyond this year because of Washington's refusal to negotiate with hostage-takers.

He said "positive indications" of a breakthrough in the hostage crisis that followed the release last month of American hostages Robert Polhill and Frank Herbert Reed "have diminished".

● Iran has hinted that Britain would get no help in freeing British hostages in Lebanon while an Iranian student was in a British jail without trial.

"The British press as well as British politicians and (the Church of England) would do well to demand some explanation from the government for its malicious treatment of Moslems in England including the imprisonment without trial of the Iranian student," the Iranian news agency IRNA said.

Nigeria cuts oil production

Nigeria yesterday announced a big cut in oil output in line with moves by other states of the Organisation of Petroleum Exporting Countries to support prices, which have fallen by up to 25 per cent this year, Reuter reports from Lagos.

"The amount that Nigeria was supposed to be making in excess of its quota was 140,000 barrels per day (b/d). This is the amount by which we intend to cut down," Mr Jibril Aminu, the Oil Minister, said.

The 13 members of Opec decided at an emergency meeting in Geneva last week to cut output by 1.445m b/d.

Moroccan police hold fundamentalists

Police detained about 2,000 Islamic fundamentalists who staged a peaceful demonstration outside a court-house in the centre of Rabat yesterday, Reuter reports from Rabat. Witnesses saw fundamentalists taken into a courtyard where they were beaten by para-military police armed with batons and men in civilian clothes wielding clubs.

The demonstration was held in front of the Court of Appeal where six leaders of the outlawed Adl wa Libsane fundamentalist movement were due to appear. It was the biggest demonstration by Islamic fundamentalists staged in the centre of the Moroccan capital.

Angolan rebels claim success

Angolan rebels said yesterday they had pushed back government troops near the strategic town of Mavinga in the south-east, killing 139 soldiers and capturing about 100 tanks and other military vehicles, Reuter reports from Lisbon.

A statement issued in Lisbon said Unita rebels had stormed government positions on Monday morning, sending the troops fleeing in disarray towards their base at Cuito Cuanavale. The Lisbon embassy of the left-wing government dismissed the report.

Threat of political price for S African privatisation

Dilution of a principle is seen as worth promise of progress on negotiation front, writes Philip Gawith

THE historic political developments that have taken place in South Africa in the past few months have made a more than usually contentious issue of a privatisation programme born of economic necessity.

The African National Congress and other organisations on the left are implacably opposed to a policy they believe will frustrate their plans for a redistribution of wealth under a non-racial government. Much of privatisation will have to be "reversed", they say.

With the government and the ANC having just completed a first round of talks, the programme is vulnerable. One side does not like it; the other is unlikely to let it impede progress in negotiations.

Many supporters of privatisation would probably agree with Mr Harry Schwartz, Democratic Party finance spokesman, who said recently: "It is necessary... not to use existing political power to impose economic objectives which are the subject of dispute, if we hope that in the future political power will not be used to reverse the processes."

UNBUNDLING THE STATE

Dilution of economic principle is seen as a price worth paying for enhanced progress on the political front. Already the Government has shown itself sensitive to the political environment by stating that R1bn (£220m) of future privatisation proceeds will be put towards social upliftment projects.

A slowing of the privatisation programme would anyway be more symbolic than real since there are few short-term candidates for sale. Even in the long term, there are not many – the country has never had a large nationalisation programme that needs unravelling.

When then President P W Botha announced the programme in February 1988, he named only five big candidates: the Electricity Supply Commission (Escom); the Iron and Steel Corporation (Iscor); South African Transport Services (then Sats, now Transnet); the Phosphate Development Corporation (Foskor) and Posts and Telecommunication. In 1989 they had cumulative book assets of R73bn.

The list could be lengthened considerably. One estimate, probably optimistic, is that there are government bodies worth R250bn which could be privatised.

So far there have been two big public flotations. Sasol, the oil from coal company, was privatised in 1979. At the time it was the biggest listing the Johannesburg Stock Exchange had seen, with Sasol gaining 26,000 shareholders.

But a privatisation policy to speak of emerged only with the tabling of the White Paper in 1987. This represented one of the Government's first responses to the fact that the country was in serious economic difficulty and required drastic change.

The 1985 debt crisis, when foreign banks refused to roll over the country's debt, was pivotal. Until then the country relied on 20 per cent of capital for fixed investment coming from abroad.

Two other figures highlight adverse economic trends which had to be reversed. First, in the period 1970-85, 63.7 per cent of all net fixed investment in the economy came from government. Second, post-1973, the fixed investment required to produce R1 of gross domestic product was twice that of the period 1946-72.

Privatisation was only one part of a much wider strategy of economic reforms embracing greater fiscal and monetary stringency, tax reform, less intervention by way of protection and subsidy, real interest rates and deregulation.

One key decision in the Government's programme was the realisation that it had to privatise the process itself, and a Privatisation Unit was formed.

The only listing to date under the policy was that of Iscor in November 1989. It raised R3.7bn, 1.85bn shares at R2 each. It was 4.16 times over-subscribed and saw 150,000 investors coming to the market, an increase of 50 per cent in the number of private investors active in the market, according to Mr Tony Norton, JSE chairman.

The listing was widely acclaimed, particularly in terms of the quality of information made available to the public and the pricing of the offer. Shares traded at first at a 10 per cent premium and the high volume of trading meant that price was established on a true volume market. After reaching a high of R2.85 on January 9, the share has since slumped back to its issue price, largely because a depressed world steel market means earnings forecasts in the prospectus are unlikely to be met.

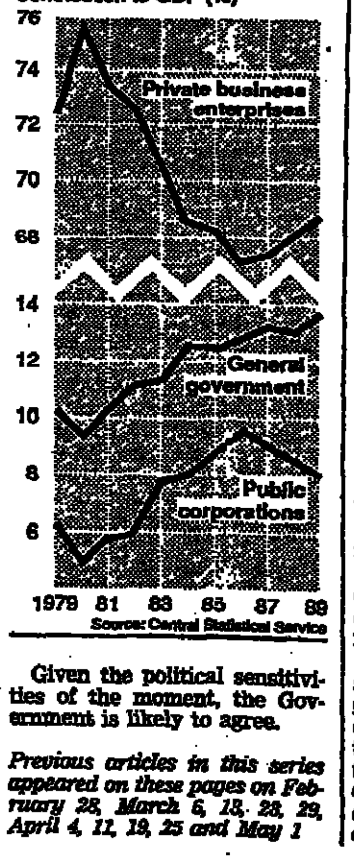
Iscor's share price, the flat state of the JSE and the dampening effect of ANC threats of renationalisation all mitigate against another listing in the short term. Foskor will probably be next up, but Transnet, Escom and Posts and Telecommunications are more distant prospects.

Transnet recently took a big step towards privatisation by dividing itself into five separate business units and changing its status from a state corporation to a private company. But it will be some time yet before any division has built up a sufficient business record to justify a listing.

Escom has been run on commercial lines for some years now, but worries about lack of competition have put its sale on the backburner. However, as Mr Norton, puts it: "Privatisation is the crowning of the commercialisation process. You can defer the coronation so long as you get on with the commercialisation."

South Africa

Contribution to GDP (%)



Source: Central Statistical Service

Given the political sensitivities of the moment, the Government is likely to agree.

Previous articles in this series appeared on these pages on February 28, March 6, 13, 23, 29, April 4, 11, 19, 25 and May 1

Religious beliefs focus ethnic tension

Lim Siong Hoon on resentment at Malaysia's growing Islamisation

Amid the surrounding din of Kuala Lumpur's material prosperity, the tropical forest enclave of Bukit Nanas, or Pineapple Hill, manages to retain a certain serenity. Up the hill's narrow and steep road you come first to the St John's Cathedral. Then, after a bend, its namesake, the red stone and marble La Sallian school.

Adjacent to the mission school – which is something of a local Eton – is the wooden building on stilts housing the Catholic Research Centre.

The building also functions as headquarters to

the Malaysian Consultative Council for Buddhism, Christianity, Hinduism and Sikhism, a group representing half the country's 17m population; the remainder are Moslems.

Islam is the only religion with official status, a position which also emboldens voices within the Government to advocate for further infusion of Islamic "values" into the civil law and to make those values the core of a "national culture."

Last month the council, normally reserved and unobtrusive in its work, appeared in the centre of political storm. The council had campaigned to collect one million signatures for a petition which boldly declared, "We do not want the syariah (Islamic laws) imposed on us".

Dr Mahathir Mohamed, the Prime Minister, thought it a hostile act against the Moslems. He also raised the spectre of another racial riot should the campaign continued. This was a reminder of May 1969 when Malays and Chinese had slaughtered each other by the hundreds.

After Dr Mahathir's condemnation, the campaign stopped – at half a million signatures. Though he and the council later met, nothing specific resulted.

The council has a list of grievances: a Moslem bureaucracy intolerant of other religions, bureaucratic hindrances to church and temple constructions, introduction of a compulsory Islamic course for all university students, and unfavourable laws that, while protecting Moslems, punish others.

To the council, these problems seem to multiply in direct proportion to Islamisation, or the fear of it. Such a fear has given the council's multi religious clergymen common cause not merely to defend religious freedom, which has constitutional guarantees, but also to fend off Islam's encroachment, real or perceived.

The council's intercession is unusual because inter-religious disputes have largely been a preserve of politicians, not an uncommon thing here. It is unprecedented because open opposition towards Islamisation is taboo and risks accusations of fanning racial hatred, a civil offence.

These points are telling from Dr Mahathir's remarks to the council not to air any problems in public. Executive power is nominally secular and shared among various races.

In actuality, the Malays under Dr Mahathir's United Malay National Organisation (Umno) is the dominant force in the National Front ruling coalition. Many of the non-Malays, the Chinese and Indians which are a third and a 10th of the population respectively, rarely vote for the coalition.

The Malaysian Chinese Association (MCA) and the Malaysian Indian Congress (MIC), the coalition's Chinese and Indian voices, help though to legitimise its multi-racial character.

Religion exacerbates this racial politics. Malays are Moslems, Chinese and Indians are non-Moslems. Hence Dr Mahathir's orders to halt the signature campaign was done on the grounds of protecting racial as distinguished from merely religious peace.

All national policies are claimed to be made by political consensus. But clearly not with all decisions, on Islam for instance. Umno's Islamic character meant it had to respond to Islamic fervour brought home from Iran and elsewhere in the Middle-East during the past decade. The result has been a visible shift by the party from the religious centre towards a stronger Islamic appeal.

While this succeeds in making right-wing Malay nationalism a norm, rather than an exception, it contributes to alienate other races. So to retain any semblance of multi-racial legitimacy left, Dr Mahathir continues to fan his party's image as a magnanimous political brother. And, before a national audience, he continues to present Islam's moderate face.

The quest for Islamisation makes this task difficult; a test of which will come in a general election expected later this year. Then, the Moslem votes will count more than before because of a schism in Umno.

Dr Mahathir's Malay leadership is challenged by Tengku Razaleigh Hamzah, his former Finance Minister who quit the party with as many as half of its original members. The latter has since teamed up with Umno's arch rival PAS, the Islamic fundamentalist group.

The revolt against Dr Mahathir may bring about a moderating influence on Umno. The trouble is that the challenge for the Moslem votes leaves precious little middle ground for manoeuvre even as Umno searches for ways to lure the non-Moslem votes in its racially mixed constituencies.

Struck with this dilemma, something may give way within the coalition. An all out appeal to Moslems may cause the MCA to lose its shirts, alternatively Umno stands to lose a record number of seats.

A need to protect Umno's interest partly explains why Dr Mahathir went down hard, and quickly, on the signature campaign. Though the campaign was stumped, the council's concerns are unresolved. Those concerns cannot be simply ruled away, not like in the past when the Government pushed through the adoption of a single Malay, official, language.

The new and worrying consequence is that future conflicts will be enlarged outside intra-coalition politics or, worse, radicalising them.

The predictable result is that non-political organisations like the non-Moslem council are driven to become the new standard bearers. Politics, and the tension that go with it, has come to Pineapple Hill.

Queueing at a Kuala Lumpur bus stop: Malaysia's diversity is being challenged increasingly by Islamisation

Nepal leaders call for Indian treaty revision

By K.K. Sharma, recently in Kathmandu

RELATIONS between Nepal's coalition Government and India could turn sour after Mr Ganesh Man Singh, supreme leader of the ruling Nepali Congress, described the terms of a draft treaty submitted by India's Government to Nepal last month as "humiliating."

Mr Man Singh said that relations with India would have to be negotiated afresh, a position that Mr Bhattarai, the Nepali Congress Prime Minister of the new multi-party coalition, also reaffirmed.

Although Mr Bhattarai did not go into details of the Indian draft, Mr Ganesh Singh said it had virtually sought taking over Nepal's defence and sovereign rights to have relations with other countries.

Mr Bhattarai has sent a message to the Indian Prime Minister seeking fresh talks on a new relationship between the two countries. Until then, he wants the position restored to that of March 1989, when the Indo-Nepal treaties on trade and transit lapsed.

For more than a year, Nepal's economy has been severely disrupted because of restrictions placed by India on trade and transit, particularly on petroleum and other essential items.

Mr Bhattarai said that the restrictions put by India "have definitely hurt Nepal."

The draft of the new treaty, which Mr Bhattarai said "is now redundant," was submitted just a few days before the present Government took office after talks with representatives of the previous administration.

Dutch policy towards South Africa eases

FOREIGN MINISTER Hans van den Broek signalled a change in Dutch policy towards South Africa and indicated President F.W. de Klerk would be welcome in the Netherlands later this year, Reuter reports from The Hague.

Answering questions in parliament yesterday, Mr van den Broek said that last month he felt too little change had taken place in South Africa for the Netherlands to invite Mr de Klerk during his nine-nation European tour which begins today. "But now there have been talks about talks and it is our hope that things will go further. And if that occurs it is no problem for us for Mr de Klerk to visit later this year," Mr van den Broek said.

He was referring to three days of exploratory talks between Pretoria and the African National Congress last week that could lead to formal negotiations on a non-racial constitution.

Van den Broek said the Netherlands would continue to press for the release of political prisoners in South Africa and an end to the state of emergency. The Netherlands has gradually been easing its policy towards South Africa, following the release in February of black nationalist leader Mr Nelson Mandela after 27 years in prison and the repeal of laws imposing racial segregation.

Since February, the Dutch parliament has indefinitely delayed voting on a bill that would have banned new investments in South Africa and has eased restrictions for visas for government officials.

Mr de Klerk left South Africa yesterday for a three-week tour of nine European countries. He will meet heads of state and government in France, West Germany, Spain, Portugal, Britain, Greece, Switzerland and two other countries to be announced.

Debt relief strategy finds favour

Stephen Fidler in Washington assesses plans to reduce debt burdens

ARGUMENTS to extend the principle of debt relief in international debt strategy appear to be making an impact on international policy-makers.

So far, official encouragement of debt relief – the writing off of some debt obligations – has followed two strands.

First, the Brady initiative attempts to lower the burden of the debt owed to commercial banks by severely indebted middle-income debtor countries. The initiative, named after the US Treasury Secretary who launched it in March 1989, uses official finance primarily from the World Bank and International Monetary Fund to provide incentives for banks to grant debt relief.

The other strand is aimed at low-income countries whose debt is more concentrated in the hands of the governments of industrialised countries. The so-called Toronto terms lowered the scheduled repayments to governments according to an agreed formula or, for those creditors that so chose, extended the debt's maturity.

In a report to ministers on the IMF/World Bank Development Committee yesterday, Mr Barber Conable, World Bank president, outlined a wide-ranging critique of the current strategy.

On the Brady initiative, the Conable report – meant for restricted circulation – pointed out that, while six Brady agreements have been reached, subsequent deals may take a long time to implement.

Voluntary loans to countries in debt reduction agreements will not be established quickly. Most capital flows to these countries will thus come from the public sector. This will increase the risks for the official sector – particularly where debt relief is inadequate.

It also noted that large-scale conversion of loans into bonds, as in the Mexican debt agreement, reduces the flexibility for future debt management.

In suggesting amendments to the Brady initiative, Mr Conable called for a more flexible use of official funds to help debt reduction deals. He also called for more agreements to include temporary debt relief, leaving open the possibility of a return to higher debt service levels in future. This, included in an agreement in principle between banks and Venezuela, would save on official resources.

Suggesting that he believes the current funding for the strategy inadequate, Mr Conable called for a further diversification with bilateral finance beyond the support provided by the IMF, World Bank and Japan.

One important issue faced by policy-makers is the high proportion of official debt owed by some, particularly lower middle-income countries. Indeed few countries outside the big four debtors to banks – Brazil, Argentina, Mexico and Venezuela – have a bank debt burden larger than an official debt burden.

Under current arrangements, this government-to-government debt and the interest due can be rescheduled under the auspices of the Paris Club. This practice, the report says, is "likely to lead to a build-up of future debt service obligations beyond a level consistent with a timely return to creditworthiness." Mr Conable calls for "a degree of debt relief when appropriate for countries in this group which have most, if not all, the characteristics of low income economies."

Expectations are growing that a French-led initiative, in some circumstances, would extend the principles of debt concessions for these countries, such as Jamaica and Nigeria, and francophone countries such as Ivory Coast and Cameroun.

On top of that, there is widely expected to be a need for a framework to write down some of Poland's debt – the country owes two-thirds of its $40bn foreign debt to western governments. These concessions are likely to be easier for some western governments to make than for others. Relief of official trade debt constitutes a particular problem for the US.

For low-income countries with bank debt, a $100m World Bank facility is already helping some countries buy back their foreign debt.

More significantly, it is becoming apparent that the Toronto terms are only providing very modest debt relief. Elsewhere, the bank has calculated that the debt relief so far for the countries of sub-Saharan Africa amounts to about $50m. Even the constant application of the concessions until the end of the century will only result in debt relief of about $2bn – 11 per cent of the countries' long-term debt.

Policymakers are coming under assault from another angle – the commercial bankers, who see themselves forced into debt forgiveness. A strongly worded report from the Institute of International Finance, the Washington-based research group which speaks for international banks, blames the strategy for engendering what it calls a loss of discipline in the international financial system. Arrears of debtor countries to international banks rose to $18.15bn at the end of March from $8.5bn at end-1988.

Quota decision 'had to be taken'

By Peter Riddell, US Editor, in Washington

THE COMPROMISE agreement on the quota review, reached late on Monday evening, reflected a recognition that "if a decision was not taken now, another six months would be lost," Mr Michael Wilson, Canadian Finance Minister, said yesterday.

Reflecting on what he described as a "demanding" first meeting as chairman of the policy-making interim committee of the IMF, Mr Wilson said he had always expected protracted and difficult discussions.

However, he denied that the US had largely had its own way in limiting the quota increase to 50 per cent and by linking this to a tough package on payment arrears, including a provision to suspend members.

Mr Wilson said both sides had had to shift from their original positions on the size of the quota increase. He argued that debtors and creditors favoured a strengthened arrears strategy and that some debtors accepted the need for a sanction in the form of suspension. He acknowledged that the linkage issue had prolonged the discussions.

The minister – who has a low-key, soothing manner – claimed there had been no acrimony, and no-one had raised his voice or slammed the table. However, he accepted that even members with doubts recognised that a decision had to be taken if there were not to be at least six months' delay in the quota increase.

Wilson: 'demanding' meeting

Mr Wilson said he had talked to some of the developing country members after the marathon meeting – they did not feel they had been hard done by. He acknowledged some apprehension by developing countries about a shift of resources and attention to eastern Europe on the part of the big industrial countries.

Mr Wilson said that the IMF would treat all calls on its resources in an objective way. Countries such as Canada would not make resources available to eastern Europe to the detriment of developing countries.

However, he said: "The point that was not lost is that there is now a competitive worldwide market for private sector capital. The private sector will respond to the attractiveness of the political and economic environment."

He said that the extent to which eastern European countries make a more successful appeal to the private sector will increase pressure on developing countries. This is already being reflected, he said, in changing attitudes in developing countries, such as Brazil.

Poland hopes to cut servicing obligations by 80%

THE Polish finance minister yesterday said his country would seek to reduce its foreign debt servicing obligations by 80 per cent, writes Stephen Fidler.

Mr Leszek Balcerowicz, in Washington for meetings of the International Monetary Fund and World Bank, said the Government would attempt to extract equal concessions from all creditor groups – commercial banks, western governments and east European creditors.

The country has a foreign debt of $40bn (£23.95bn). Of this, just over 20 per cent is owed to banks and much of the rest to western governments, and there is a debt to the countries of the Council for Mutual Economic Assistance (CMEA) of Roubles 5bn (£5bn).

Poland's scheduled interest payments would swallow 6 to 7 per cent of its gross domestic product. However, it has negotiated an arrangement with the Paris Club of creditor governments under which it will postpone all interest and principal payments due until March 1991. It has also rejected bank requests to pay 15 per cent of the interest due on its bank debt. While servicing its trade credits, it is paying no interest on medium-term debt to banks.

Mr Balcerowicz said the reduction of debt service was necessary to get rid of the country's "debt overhang" and to convince Poles that their sacrifices were not being made for the benefit of foreign creditors.

Mr Janusz Sawicki, the deputy minister of finance responsible for debt negotiations, said the country expected balance of payments *support from the World Bank of* about $2.5bn over the next three years.

US opposes 'green' fund loan plan by World Bank

By Peter Riddell in Washington

THE US is opposing the World Bank's latest proposal for a special new "green" fund to provide concessionary loans for environmental projects.

A senior US Treasury official said yesterday that the administration saw no need for a new fund requiring additional resources when the World Bank's existing funds could be used more for environmental purposes.

He suggested that the cost of environmental adjustments should not be entirely borne by industrialised countries via a new fund; rather, developing countries should use some of existing resources to address the problem themselves.

● Peter Norman adds: Mr John Major, UK Chancellor of the Exchequer, yesterday warned that countries supplying Third World nations with aid might place conditions on spending policies if these were wasteful.

He told the joint IMF-World Bank Development Committee that there were still too many cases of "questionable military purchases and white elephant public sector projects" in the developing world.

"Donors cannot but take notice if resources are being wasted at a time when many of the countries involved are pressing for additional external support," he said. He said the UK would contribute to a substantial capital increase for the International Finance Corporation, the World Bank affiliate promoting private sector initiatives in developing nations.

AMERICAN NEWS

US plans to lift anti-trust threat from joint ventures

By Peter Riddell, US Editor, in Washington

COMPANIES operating in the US will be able to engage in joint production ventures without fear of anti-trust actions, under detailed legislation proposed by the Bush administration.

The aim is to strengthen the competitive position of US manufacturing industry in bringing to the market new products with large development costs.

Anti-trust restrictions have already been relaxed on joint research and development projects and the latest proposal would extend this protection to co-operative joint production ventures.

Under the proposal, the courts would be required to apply the "rule of reason" on a case-by-case basis to take into account cost competitiveness and competition abroad as well as domestically, in determining whether companies have colluded to defy anti-trust laws.

Moreover, the potential liability for companies involved in joint production ventures found to have violated anti-trust laws would be reduced to single damages from three times the damage caused.

The administration proposal will benefit foreign-owned as well as US companies engaged in such joint production ventures. However, Representative Jack Brooks, the Democratic chairman of the House Judiciary Committee, would restrict the benefits of the relaxation from ventures and participating companies with 30 per cent or more foreign ownership. This is opposed by the administration.

In general, there is widespread congressional support for the change, though it could still face some congressional hurdles. For instance, Senator Howard Metzenbaum, the Democratic chairman of the anti-trust sub-committee of the Senate Judiciary Committee, has said he opposes the bill, which "would do little to help America's competitiveness and much to undermine the laws that promote competition."

Mr Robert Mosbacher, the Commerce Secretary, has said the proposal will help US companies to bring important research from the laboratory to the market place "efficiently, cost-effectively and with less risk". One of his officials said that the legislation reinforced a trend in recent court cases to take a more lenient view of such joint ventures on a case-by-case basis.

Commercial lawyers also suggested that the direct impact might be limited, since few cases had been brought against such ventures. However, some small companies have expressed fears that they will lose out against larger concerns combining together.

Chicago futures traders go on trial

By Barbara Durr in Chicago

THE first trial to stem from a two-year undercover Federal Bureau of Investigation probe of trading abuses in Chicago's futures pits began yesterday.

Three traders of Swiss franc futures at the Chicago Mercantile Exchange (CME) are facing criminal charges brought by the US Government ranging from mail and wire fraud to racketeering.

The FBI investigation, which ended early last year, produced indictments of 47 traders and brokers and one clerk from the CME and the Chicago Board of Trade. While many of those indicted have pleaded guilty and are understood to have co-operated with the Government's prosecution, 32 traders have said they are innocent and are to be tried. After the three Swiss franc traders, 16 traders of yen futures and 13 traders of soyabeans are scheduled to go to court later this year.

The trial is ill-timed for the Chicago futures exchanges, coming as a battle unfolds in Washington over stricter regulation of the pits. The Commodity Futures Trading Commission, the Chicago markets' regulator, is under fire from Mr Nicholas Brady, Treasury Secretary, for not being sufficiently tough.

Some commodity law experts, however, believe the trial could serve to show how well the existing regulatory structures work. This, they say, will tend to create more confidence in the futures markets, not less. The CFTC assisted in the FBI inquiry.

The Government says its investigation of trading is continuing.

At issue in the trial is whether the traders cheated customers as they executed orders.

The Government charges that brokers fixed trades by various methods to avoid their own responsibility for trading losses. The defendants' lawyers are expected to argue that the trading practices alleged to be illegal are widespread and are largely to help smooth out errors in the scrum of the marketplace.

New men turn to trouble at home

Tim Coone weighs up a shift of orientation away from foreign initiatives as the presidency changes hands in Costa Rica

DR OSCAR Arias of Costa Rica, a political peacemaker and economic pace-setter in Central America for the past four years, handed over his presidential sash of office yesterday to Mr Rafael Angel Calderón, a 41-year-old lawyer of centrist political views, and the victor in the presidential election last February.

Dr Arias was the father of the Central American peace plan, for which he won the 1987 Nobel Peace Prize, and which in recent months has begun to bear fruit. He has presided over a national economy which has shown a healthy average 5 per cent growth during the past four years. His will be a difficult act to follow.

The debut of President Calderón will be no easier because of contradictory pledges he made, during the electoral campaign, to improve social welfare programmes, especially housing, while also promising to put government finances in order. In the early 1940s, his father founded Costa Rica's extensive welfare system. In the 1990s, the son will have to juggle with trying to improve on that while bringing the Government's swelling debt under control.

This year the fiscal deficit is on course to reach 30bn colones (£209m) or 7 per cent of GNP. Mr Phelmo Vargas, the new Finance Minister, said this week he intends to reduce the deficit to zero "within three years", but how he will square this with Mr Calderón and populist cabinet ministers backing the Social Christian Union Party's (PUSC) welfare programme, remains to be seen.

It seems likely the cabinet will suffer an early shake-out, with free marketeers such as Dr Vargas (educated in the US at Chicago and Berkeley) and Mr Jorge Guaradia, new Central Bank president, eventually taking firm control of the economic reins.

Maintenance of tight control over government finances will be vital if planned negotiations with the World Bank for a new structural adjustment loan, and with the IMF for stand-by loan finance, are to succeed. These in turn will be crucial to the renegotiation of repayment terms on $3bn in outstanding Paris Club and multilateral debt.

One of the last acts of Dr Arias's government was to sign a debt buy-back and conversion scheme at the weekend with commercial bank creditors. This will reduce Costa Rica's debt burden by $1.255bn (£740m) for a cost of $226m. Half of the finance for the scheme, though, has still to be found and much will depend on the outcome of talks in the next few months with the World Bank and the IMF.

Dr Arias's legacy is one which has projected Costa Rica onto the world stage, as a country able to take a leading role in the Caribbean Basin and in Latin American. As a result of his peace initiatives, war is receding from Costa Rica's borders, and the country is one of the few in Central America where there is active foreign investment. He has been rewarded with sympathy and understanding by the country's creditors.

The buoyant economy, however, has been built largely on foreign debt contracted in the late 1970s and early 1980s. As foreign credit sources dried up during the last decade, Dr Arias's government turned to domestic savings as a source of finance. The result is that the internal debt problem is now almost as great as that of the foreign debt. The state sector absorbs 50 per cent of available bank credits and more than 85 per cent of the funds circulating in the local stockmarket. To service this debt, the Government is obliged to expand bond issues continually at interest rates which suppress economic activity in the private sector.

According to one PUSC militant in the Foreign Ministry: "We are pleased with what Dr Arias has done for Costa Rica internationally, but the time has come to pay attention to the problems at home."

That is Mr Calderón's slogan. If he proves as adept on domestic issues as Dr Arias has on international ones, Costa Rica should consolidate its place in the sunshine now breaking through the Central American storm clouds.

Nicaragua devalues currency

NICARAGUA yesterday devalued its currency 10 per cent against the US dollar on the official market and 2.8 per cent on the parallel market, Reuter reports from Managua.

The devaluations are the third since the government of President Violeta Chamorro took office on April 25.

The central bank said the official dollar rate rose to 100,000 cordobas-to-one from 90,000. The parallel market rate, used for most imports and offered at state-controlled exchange houses, rose to 175,000-to-one from 170,000.

Central bank president Francisco Mayorga has said the cordoba will suffer devaluations during May to adjust for high inflation. He said the bank plans gradually to close the gap between the official and parallel market rates before introducing a new currency on par with the dollar in July.

On Monday the Government announced a 60 per cent increase in the minimum wage.

Banker sees economies leaving 'lost decade'

By Joe Mann in Caracas

SOME Latin American economies are finally leaving behind "the lost decade" of the 1980s, enabling US banks and investors to "give more serious considerations to the opportunities beginning to emerge", Mr Lewis Coleman, vice-chairman of Bank of America and head of its world banking division, said in Caracas yesterday.

He told a group of businessmen that economic reforms in Venezuela, Mexico, Chile and Colombia had distinguished these countries from others in the region, and suggested that they had the best chance of making substantial economic progress and competing for international commercial loans and investments in the future.

Mr Coleman said Venezuela had weathered "the sharpest one-year decline in output in its recent history" and if the Government continued to push ahead with economic reform, the country would become "one of Latin America's most attractive investment opportunities".

He warned, however, that big US banks were "subject to much greater pressure to generate profits" today than in the past, and that Latin American countries seeking loans and investment were facing tough competition from North America, Europe and the Pacific Basin.

Reuter reports: Venezuelan police have arrested a doctor and 11 morgue employees on charges of having removed the eyes of corpses and sold them for cornea transplants, officials said.

A senior policeman told reporters the eye-theft ring had been operating for some time from a Caracas morgue, and that inquiries were continuing.

Coroners' assistants and orderlies stole the eyes mostly from the unclaimed bodies of young people, and sold them for about $35 to a doctor in Maracay, a city west of the capital, the officer said, adding that the doctor was using the eyes for cornea transplants and charging up to $2,000.

Police are investigating possible foreign connections.

High inflation rate withstands monetary squeeze in Chile

By Leslie Crawford in Santiago

THE overheating in Chile's economy is being cooled in response to the Central Bank's restrictive monetary policies, but inflation, which reached an annualised 24.8 per cent in April, is proving immune to the same treatment.

Mr Alejandro Foxley, the new Finance Minister, says most indicators show the economy growing at a 4 to 5 per cent annual rate – down from the unsustainable 10 per cent registered last year.

The Central Bank has applied the brakes by raising real interest rates from 11 to 14.5 per cent since the start of the year. The construction sector has been the first to feel the pinch, with building starts reported 50 per cent down on last year. Consumers are also being squeezed by more expensive credit – car sales, for example, have fallen by 30 per cent.

The economic slowdown should have dampened inflation, but price increases have accelerated. Central Bank officials say they are still mopping up the results of a spending spree during the final months of the military regime which stepped down in March, but recent measures, such as the raising of the minimum wage, are expected to keep the monthly inflation rate above 2 per cent in May and June.

The resilience of Chilean inflation has convinced Mr Foxley that fiscal, as well as monetary, measures are needed to fight it. He told Congress last week that most of the extra revenue generated from planned tax increases this year would be needed to cover an estimated budget deficit equivalent to $380m. Also, he warned that much-heralded improvements in health, housing and education would have to wait until the Government had the necessary funds.

Chile's budget is usually prepared in August for the following year. In drafting its last budget, the military regime aimed to impose fiscal austerity on the new civilian administration. However, two of its assumptions now seem wildly optimistic: inflation was forecast at 12 per cent for 1990 – in reality it is likely to be double that figure; and tax receipts were predicted to rise by 21 per cent – but tax cuts made last year are now starting to take effect. Besides, the military included revenues from planned privatisations – a programme the new Government has put on ice.

Brussels plans aid for Asia and Latin America

By Tim Dickson in Brussels

AN Ecu2.9bn (£2.14bn) package of European aid for the countries of Latin America and Asia – an 80 per cent increase on previous levels of support – was proposed in Brussels yesterday by the European Commission.

The announcement by Mr Abel Matutes, EC Commissioner responsible for relations with the two regions, was seen as a demonstration of the Community's determination not to allow upheavals in eastern Europe to swallow a disproportionate share of its "spare" financial resources.

Brussels also said yesterday that it wants to switch the emphasis from traditional forms of development aid to economic co-operation with the more dynamic regions. Particular attention would also be paid to the environment.

Japanese face strong protest over dock levies

By Ian Rodger in Tokyo

IN A rare show of unanimity, the US, Canada, the Nordic countries and European Community complained to the Japanese Government this week that new levies charged by Japanese dock warehouse companies on international shipping constituted an unjustified barrier to imports.

The levies, which would raise some Y6bn ($38m) a year, were proposed last autumn by the Japan Harbour Transport Association (JHTA), an association of dock warehouse companies, to finance improvements to companies' facilities and train dock workers.

Both Japanese and foreign shipping companies objected, seeing no reason why they should help fund the warehouse industry's capital investments. Foreign companies also complained that the levies on international container traffic, in which they have a 50 per cent market share, were much higher than those on car carriers or on domestic shipping, where their share is small.

Japanese and foreign companies ultimately gave in to the JHTA's demands, knowing that without its co-operation they would have difficulty operating.

The JHTA has accumulated considerable power in the past two decades by acting as the intermediary between shippers and dockers whose jobs were threatened by automation.

Paradoxically, one of the ostensible purposes of the new scheme is to attract new labour to the docks, where there is now a shortage.

As a result of the strong opposition, the JHTA introduced the levy scheme for a six-month trial ending on March 31, hoping to negotiate a longer term arrangement in the interval.

So far, the governments of Australia, Canada, the US, EC, Korea, Hong Kong and Taiwan have complained to the Japanese authorities. They argue the levies constitute quasi-taxes being charged by an unaccountable private sector organisation and as such are unacceptable.

According to the Japanese Ministry of Transport, the levies arise from a purely commercial agreement between private sector companies.

When one man's dumping is another's good price

US trade officials are caught between domestic producers and importers, writes Peter Montagnon

IT SEEMS nobody involved in trade is ever satisfied.

The recent preliminary US Commerce Department finding that Asian sweaters worth some $1.25bn a year were being dumped in the US market produced howls of protest from both importers, who rely on low prices, and domestic clothing manufacturers, who were seeking protection.

The latter thought the dumping margins found by the Commerce Department, which ranged up to 36.89 per cent in the case of one Taiwanese company, were far too low. Importers said the prospect of dumping duties meant they had fallen victim to an arbitrary legal process which was skewed in favour of domestic industry.

Officials responsible for applying US trade remedy laws are increasingly caught between such vociferous complaints from consumers and demands from business for tougher action to be taken against anything that smacks of unfair trading.

Consumers have still some way to go, however, before they can carry the day. The traditional business lobby is still dominant and its imprint can be seen in the position on anti-dumping taken by the US in the Uruguay Round of multilateral trade negotiations.

No fewer than 64 senators wrote to President George Bush earlier this year asking him not to weaken the anti-dumping and countervailing duty laws during the Uruguay Round.

Congress considers that the US was too willing to open its markets in the previous Tokyo Round in return for rules of behaviour which have been ineffective because they have not been respected by other countries, says one Senate aide.

It would be hard for the *Bush Administration to* persuade Congress to support a Uruguay Round package which watered down these rules in areas such as dumping.

On the other hand, it is not only the sweaters case that has brought out contrary opinion. *A dumping suit on* ball-bearings lodged last year by the Torrington Company of Torrington, Connecticut, prompted an outcry from users such as Caterpillar and Hewlett Packard. They said dumping duties on essential inputs would push up their costs and make their products less competitive.

More recently, pressure from steel users led President Bush to renew voluntary import quotas for only 2½ years instead of the five years sought by industry.

Meanwhile developing countries, such as Mexico, are moving to introduce anti-dumping procedures of their own. Some US companies fear they will receive a dose of their own *anti-dumping medicine in* foreign markets.

The US Association of Importers of Textiles and Apparel, claimed after the sweaters case that US anti-dumping procedures were tilted in favour of a finding that guarantees protection for the domestic industry.

There is controversy over the extent to which the US system is actually tilted, but some experts maintain that in calculating dumping margins the US uses a formula that puts foreign exporters at a disadvantage because of the way it accounts for their indirect selling costs in the US. Others say the US too frequently manipulates the figures by using constructed prices for calculating dumping margins.

Industries affected by the Torrington case argued that it was unfair to apply dumping duties to products which were not even manufactured in the US just because they were similar to those where dumping had been found.

One school believes that the US should declare itself willing to iron out such problems in the Uruguay Round in return for an international agreement on rules that can be applied to prevent circumvention of dumping duties, for example, by companies who simply change the location of final assembly to escape paying.

The US made clear during the recent investigation into the EC's circumvention rules by the General Agreement on Tariffs and Trade that it regards such rules as essential.

However, Mr Eric Garfinkel, Assistant Secretary of Commerce, dismisses the idea of a trade-off.

The US is pushing hard to improve standards, transparency and "due process" in anti-dumping procedures as a means of ensuring fair play by those countries which have newly adopted this instrument. But that does not mean changing the way dumping is determined, he says. "I believe our system is not tilted and that it provides a fair apples-to-apples comparison."

Besides agreement on measures aimed at dealing with circumvention, the US is also looking to the round for increased deterrents and the means of dealing with repeat dumping. Asked what it is prepared to concede in return, he replies simply: "I will not come back with a weaker anti-dumping code."

The US is now in a stronger position than the EC to push its anti-circumvention proposal in the round because Japan has successfully contested the latter's scheme in Gatt.

The main differences between the two are that the US imposes dumping duty on parts as they cross its border on their way to final assembly instead of when they leave an assembly plant inside its territory.

It also says value-added outside the dumping country must be "small" for circumvention to have occurred. This means wage costs in the new location are included in its calculation, whereas Europe relies simply on content.

Mr Garfinkel argues that the US system, which has been in effect since the beginning of last year, is Gatt-consistent.

This might explain why the US does not apparently feel that it needs to make many concessions to win international approval for its anti-circumvention scheme. Meanwhile the Bush Administration continues, for the time being, to face pressure at home from a business lobby broadly in favour of tough anti-dumping action.

Mr Mike Stein, a specialist trade lawyer and former ITC General Counsel, says countries committed to open markets need the kind of safety valve which anti-dumping actions provide. "In the absence of some mediating mechanism that redresses at least partially the advantage that a closed market has, you can't keep the game going."

THE European Commission has started an investigation into alleged dumping of Korean car radios in the Community, following a complaint from European manufacturers, writes Lucy Kellaway in Brussels.

Imports of the radios from Korea have risen from 1.7m units in 1985 to 5.8m in 1988, to reach a value of almost Ecu 200m (£270m). They were allegedly being sold at prices well below those in the Korean home market and below those charged by consumer producers. The European manufacturers complained that as a result of such imports their production had stagnated, despite a Community market that is growing quickly. EC sales of radios have increased from 11.9m in 1985 to 18.3m in 1988, in which time the share of EC producers has fallen from 49 to about 33 per cent.

As a result, European producers, which need to prove that they have been damaged to justify imposition of a duty, claim they have had to cut capacity and lay off workers. The downward pressure on prices has resulted in significant losses.

Unido's Milan office invests $250m in two years

By Haig Simonian in Milan

BARELY two years after opening, the Milan office of the United Nations Industrial *Development Organisation* has set up 14 projects investing in developing countries worth some $250m, according to Mr Domingo Saizon, Unido's Secretary-General.

Unido, which effectively became an independent special UN agency at the end of 1985, now has nine investment promotion offices in industrialised countries, with a further two privately financed operations in Moscow and Peking.

Their task, normally conducted in co-operation with the aid and trade promotion agencies in the host countries, is to promote inward investment into the developing world, partly by developing feasibility studies to assess the viability and commercial attractiveness of different projects.

Italy is already the biggest single contributor to Unido's $40m "voluntary fund" with a $17.8m payment in 1989, says Mr Saizon. The voluntary fund, which covers about 35 per cent of Unido's current $134m operational budget, is based on payments by individual member states over and above their regular contributions.

The fact that Italy has been a relative latecomer in spurring investment projects is another reason behind the sharp growth of Unido's Milan activities, according to Mr Sergio Zampetti, the unit's head. Only recently has Sace, the Italian state insurance guarantee agency, added project risk evaluation to its country risk evaluation activities, he said.

Among the 50-plus projects in advance negotiations at Unido's Milan office are three ventures in the Philippines, 10 in India and about 20 in Latin America.

Nine of the 14 projects so far organised from Milan are in Argentina, "not normally a country in which investment would easily go," according to Mr Saizon.

Moscow shifts its Finnish purchases

THE SOVIET UNION has switched a large part of its traditional purchases from Finland to later in the year, apparently to avoid paying interest under a new bilateral payments scheme, a Foreign Ministry official said, Reuter reports from Helsinki.

Finland and the Soviet Union introduced the new scheme in 1990, under which interest must be paid on accumulated debt above Rbs100m, while any accumulated amount above Rbs200m must be paid off automatically in hard currency.

Trade figures show Soviet purchases in January-March were FM2.8bn ($709m) after *FM4.0bn in January-March* 1989.

Finland's surplus of FM1.6bn in the bilateral trade of January-March 1989 had consequently dropped to around FM500m in the first quarter of 1990.

Finnish purchases were FM2.3bn in this year's first quarter after FM2.4bn in the 1989 first quarter.

"Companies say Soviet buyers dated their purchased for later this year. This particularly concerns paper, as they are now buying about 40 per cent of it early in the year and 60 per cent late, the reverse of the former way," the official said.

"It is a fair assumption the Soviet Union has placed orders *later in the year to avoid* paying interest", he added.

PUBLIC NOTICES

PERSONAL

THOMPSON. A memorial service for John Thompson, a former partner of Fielding, Newson-Smith and recently director of W.I. Carr will be held at St Lawrence Jewry, next Guildhall, London EC2, on Wednesday 23rd May at 12 noon.

MSF-Rhône-Poulenc connection

UK unions forge European links in defence sector

By John Gapper, Labour Editor

THE MSF general technical union is forming links with French unions within Rhône-Poulenc, the French state-owned chemicals company, to try to get information about company policy it says it has been refused in Britain.

The union says it has unsuccessfully tried to force the company to disclose its intentions following its takeover of RTZ Chemicals. MSF now wants to form links with the CFDT and CGT French union confederations in Rhône-Poulenc,

The move follows attempts by unions to set up European-wide consultative structure within the French defence and electronics group Thomson-CSF. British unions are keen to take advantage of consultation provisions in Europe.

MSF, which represents technicians and white-collar staff within Rhône-Poulenc in Britain, approached the French unions after the company refused to consult with it nationally following the takeover of RTZ Chemicals.

The union said the company instead said that unions at its British sites would be consulted at a local level if jobs were likely to be affected by restructuring.

Rhône-Poulenc also took over Rorer Chemicals in the US in March to form one of the 10 largest chemicals companies in the world. MSF officials fear this could lead to job losses in a restructuring.

The union tried to force *Rhône-Poulenc to consult with* its workforce following the takeover of RTZ Chemicals through industrial tribunal *claims under 1981 employment* protection regulations governing acquisitions.

However, the company has filed papers at a London industrial tribunal showing that the acquisition of RTZ Chemicals was made by share transfer, according to MSF. Under the 1981 regulations, this avoids the need to consult with employees.

Mr Peter Skyte, an MSF regional official, said the union wanted to develop a European consultation structure which would give British unions the same information as the French.

MSF representatives met CFDT leaders within Rhône-Poulenc last month to discuss their difficulties. The French unions fear that restructuring following the Rorer takeover could lead to two or three European plants being closed.

The British union is also trying to lobby European Commissioners to get the loophole on the form of company takeovers requiring consultation closed in a further Commission directive on takeovers and mergers.

British unions have become increasingly interested in consultation with other European unions because of fears over the impact of employment restructuring under the Single European Market programme.

The company said it could *not comment on MSF's claims.*

Private companies fear 'casino' image of the City of London

MANY of Britain's fast-growing private companies have a negative view of the City of London and do not plan to seek a Stock Market listing, according to a survey* published today, writes Charles Batchelor.

Three in five of private companies surveyed said the City placed more importance on taking short-term profits than achieving long-term growth and that companies lost their entrepreneurial spirit when they went public.

A further seven out of 10 said the typical City investor had never been inside a factory.

The survey, carried out by MORI for Pannell Kerr Forster, an accountancy and consultancy firm, covered 200 companies with turnover of £5m to £75m and profit growth of at least 20 per cent a year.

Mr Clande Brown, Pannell chairman, said: "It seems the majority of high-turnover and fast-growing companies do not look to the City for financial help and advice. This poses a real challenge for professional investors and the City should now aim to woo these companies and create a better image for itself."

Only one in 20 of the companies surveyed said they wanted a public flotation. Three in five of chief executives and managers questioned said they intended keeping their company private; one in six said they would sell the company private; and almost one in 10 said they would bequeath it to someone.

Many executives questioned said they were concerned that they would lose the control, flexibility and independence they had as private companies. Three out of five described the City as a "casino" which took no acount of a company's true value.

A quarter of respondents wanting flotation said they were concerned that the attitudes of their customers and suppliers could change unfavourably as a result of going public.

The executives' view of the City investor was of someone who was public-school educated, *intelligent, professional* and hard-working but who was also snobbish, overpaid, with low integrity and who had never been in a factory.

**Private Companies in the 1990s. Pannell Kerr Forster, New Garden House, 78 Hatton Garden, London EC1N 8JA. Free.*

Chatham House appeal launched by Carrington

By Robert Mauthner, Diplomatic Correspondent

LORD Carrington, a co-President of the Royal Institute of International Affairs, yesterday launched an appeal for a minimum of £2.5m to help finance the institute's greatly expanded activities and to enable it to maintain its position as one of Europe's leading foreign affairs research establishments.

Chatham House's 70th Anniversary Appeal will be complemented by a further fund-raising effort in the US which, it is hoped, will bring in an additional £1.5m. If successful, the two appeals would double the Institute's present portfolio of nearly £4m.

Lord Carrington told an audience of some 150 representatives of British business organisations that people now lived in a "knowledge-based" society in which information was the currency of power, but only if it was interpreted correctly and used wisely.

Admiral James Eberle, the outgoing Director of Chatham House, said the Institute's in-house research staff had increased from only 12 in 1980 *to 35 today.*

Path 'cleared' for further talks on Northern Ireland

By Ralph Atkins

A GOVERNMENT reassurance that the 1985 Anglo-Irish agreement could be reconsidered was yesterday thought to have cleared the way for further talks about Northern Ireland's political future.

Mr James Molyneaux and the Rev Ian Paisley, leaders of the Official Unionists and Democratic Unionists respectively, are expected to meet Mr Peter Brooke, Northern Ireland Secretary, shortly – possibly within a week.

The meeting would continue a series of talks Mr Brooke has initiated between leaders of Northern Ireland's constitutional parties about possible forms of devolved government in the province.

In Dublin yesterday, Mr Charles Haughey, the Irish Prime Minister, ruled out suspension of the Anglo-Irish agreement as an incentive to Ulster Unionists to start talks with the British Government. But he underlined his willingness to be as helpful as possible "in the interest of securing progress."

Last week Mr Brooke's efforts appeared to have stalled when the Unionist leaders insisted that before further talks were held he should set out explicitly how the Government would meet their pre-conditions

But Mr Molyneaux and Mr Paisley appear satisfied with a letter Mr Brooke sent them last week in which he said that in discussions about alternative forms of Government "we would give serious consideration to any implications for the agreement which such arrangements might have."

The Unionists have also called for the suspension of both the regular conferences between British and Irish ministers and the joint secretariat set up under the agreement.

However Unionist sources yesterday indicated that Mr Brooke's letter offered sufficient assurance to make talks worthwhile. Another meeting would give unionists leaders an opportunity to "tease out" his position on their other demands, they said.

Visa challenges court ruling on credit cards

By David Barchard

VISA INTERNATIONAL, the credit and debit card payment system, yesterday launched a controversial High Court action against the Department of Trade and Industry, challenging recent Government moves to reform the credit card industry.

Visa is asking Mr Justice Hodgson to declare that a recent decision by Mr Nicholas Ridley, the Trade and Industry Secretary, allowing retailers to charge customers a lower price if they pay by cash rather than credit card, is void.

The High Court is also being asked to block Government attempts to make Visa alter its rules and allow all its member banks to sign up retailers for credit card services.

At present a bank can only sign up retailers for Visa if it has already issued a specified level of credit cards.

The rule created serious *problems for National West*minster and Midland Banks, both of which were temporarily delayed by the restriction from offering combined MasterCard and Visa retailer services after they joined Visa last year.

If Visa's application succeeds, it will have overturned the two main recommendations of the Monopoly &Mergers Commission Report on credit cards, published last August.

In March the DTI said that it was pressing ahead with statutory orders to achieve the changes in the UK credit card market rather than a voluntary system operated by banks and credit card organisations, because it feared that Visa's High Court application would lead to a serious delay.

POWER PRIVATISATION

Pollution and costs prompt gas-burner plan for coal station

By Maurice Samuelson

POWERGEN, which is planning a chain of gas-fired power stations, is considering spending £175m on adding large-scale gas burners to one of its biggest coal-fired power stations in order to cut fuel costs.

The scheme, known as a "topping cycle", is under review at the 2,000 MegaWatt station at Cottam, in North Nottinghamshire, in the English midlands, which currently uses coal from collieries manned by members of the Union of Democratic Mineworkers.

The aim, says the newly privatised generating company, would be to reduce the station's running costs, extend its life and reduce the overall amount of pollution caused by PowerGen's coal fired power stations.

The equivalent of building a large new gas fired station, it would involve construction of four 150MW gas turbines to be fuelled with gas from the North Sea. The exhaust heat from these turbines would boost each of the station's 500MW coal-fired generating units, improving the power station's overall efficiency from 38 *to 44 per cent.*

Mr Ed Wallis, PowerGen's chief executive, said yesterday that the company would decide in the middle of the summer on whether to proceed with the scheme.

It was part of PowerGen's commitment "to become, and then remain, the lowest cost producer of electricity in the UK". Cottam had been chosen because it could not easily receive cheaper imported coal and therefore risked being priced out of the market when coal imports began expanding later in the decade.

But Cottam could easily be supplied with gas from Killingholme, on South Humberside, where PowerGen plans to build a 900MW all-gas power station, fuelled from the Pickerill field in the southern North Sea.

Without gas-firing or imported coal, said Mr Wallis, Cottam might eventually bear the highest running costs among PowerGen's five big coal fired stations, spelling its end as an outlet for coal from nearby coalfields. But the gas option could give Cottam "a competitive edge and help to keep some UDM miners' jobs".

National Power, the rival generating company, is also a considering gas-burning at coal stations, but does not favour the "topping cycle" route.

The go-ahead at Cottam depends on the outcome of a £300,000 feasibility study being carried out by NEI-ABB, the company recently formed by Rolls Royce and Asea Brown Boveri to address the UK gas turbine market.

ABB is one of the world's biggest suppliers of combustion equipment. NEI built many of Britain's conventional coal-fired power stations, including Cottam. The Cottam project, is the first of its kind in Britain, but resembles schemes in West Germany.

Shareholders may be hit by Porton accounting change

By Peter Marsh

PORTON International, a private pharmaceuticals company backed by investment of £76m, has changed its accounting policy in a move which may reduce dividend payments to shareholders.

Mr Wensley Haydon-Baillie, Porton's chairman, who owns roughly a third of the shares, is likely as a result to receive this year a dividend substantially less than the annual sum of roughly £500,000 he has gained over the past three years.

The company's accounts for 1989, due to be released to shareholders in the next few weeks, will show that the company has stopped capitalising research and development expenses. Instead the accounts will treat the spending as a loss to be deducted from profit.

The capitalising of this spending, which has been Porton's practice until now, is considered unusual in the drugs industry. It has had the effect of making the company show a relatively large pre-tax profit, out of which dividend payments have been made.

Mr Haydon-Baillie started Porton in 1982. Porton's other shareholders, which have provided the investment funding, include large financial institutions such as Legal & General, Sun Alliance and the pension funds of National Westminster Bank, the Post Office and British Telecom.

Mr John Burke, chief operating officer of Porton, said yesterday the company had decided to change the accounting policy as it moved into a new phase of development.

UK NEWS

Financial markets retain local election gains

Major claims first sign of success for interest policy

By Andrew Marshall and John Authers

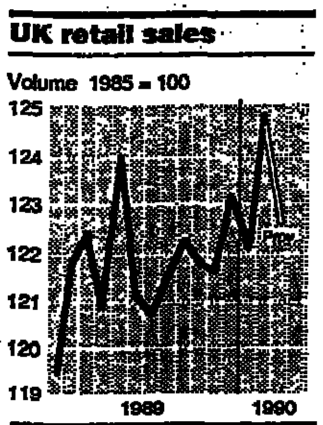
THE UK economy is starting to respond to high interest rates, Mr John Major, the Chancellor of the Exchequer said yesterday, as new figures showed a slowdown in the consumer credit boom.

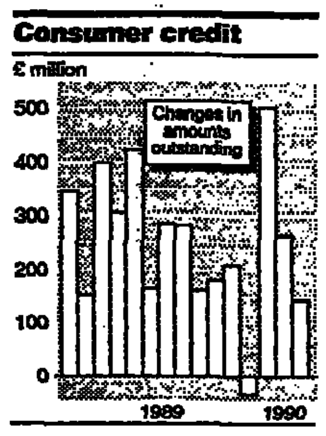
Mr Major, speaking on BBC radio held out no hope of an early cut in rates. He also said that the effect of the community charge, the new local tax, and the rise in excise duties in the Budget would together add 1.5 percentage points to the annual percentage rise in the Retail Prices Index for April, to be released on Friday.

Some forecasters are expecting that the annual rate of inflation will come in above 10 per cent by comparison with the March figure of 8.1 per cent.

Mr Major said that although inflation would remain high for some time to come, he believed that the UK economy was slowing. "I think the policy mix is tough enough and is working. I do not think there is any doubt if you talk to businessmen, retailers or mortgage holders, that the impact of monetary policy is beginning to work in squeezing down demand."

This view seemed to be supported by figures showing that a sharp downturn in retail sales in April after an unexpected bounce in March, and stagnant consumer credit growth.





Emerging evidence of a slowdown in domestic demand helped London's financial markets retain the gains they made on Friday, when local election results showed the Conservative Party stronger than expected. The FT-SE 100-share index closed 19.8 higher at 2,182.0, although this was below the day's highs.

There was some profit-taking in the gilts market, but at the end of the day prices were virtually unchanged from a slightly lower opening.

The pound finished nearly a cent stronger against the dollar, though it fell against the D-Mark. Mr Michael Saunders, of Midland Montagu, said: "It's still just a follow-through from the local elections. One of the biggest uncertainties was the uncertainty about Mrs Thatcher. The near-term uncertainty has now been removed."

Despite Mr Major's optimism, some analysts still fear that rising wage demands could extend the period of inflation. Mr Peter Spencer of Shearson Lehman Hutton, said that unless there was a sharp collapse in demand, "I can't see any force on earth that will bring wage settlements down."

Alcohol ban urged for Italy World Cup

By John Wyles in Rome

MR COLIN Moynahan, Britain's Minister for Sport, yesterday donned the mantle of a temperance preacher in his attempt to persuade the Italian authorities to include a ban on alcohol sales in the defensive armoury they are preparing against outbreaks of hooliganism among British soccer fans at next month's World Cup.

Although the Italians are among Europe's leading consumers of alcohol, public drunkenness is deemed socially unacceptable and they are genuinely puzzled by the English weakness for such behaviour.

When Mr Moynahan yesterday urged Mr Carlo Tognoli, his Italian counterpart, to ban alcohol sales on the ferries which will take an estimated 5,000 English fans from Genoa to Cagliari, and around the ground in the Sardinian capital where the English team is playing its opening rounds, he met with polite concern and a request that he should take up the matter with the relevant local authorities. "It is a matter of major importance that there should be restrictions on alcohol sales and it would be a very serious mistake for it to be sold on the ferries travelling for 12 or 13 hours to Cagliari," said the minister.

GUINNESS TRIAL

Saunders 'persuaded' to agree £3m fees

By Raymond Hughes, Law Courts Correspondent

MR ERNEST Saunders told Department of Trade and Industry inspectors investigating Guinness how he had been "persuaded" by colleagues to agree to £3m fees being paid to City stockbroker Mr Anthony Parnes and Sir Jack Lyons, the millionaire financier, the jury at Southwark Crown Court heard yesterday.

The persuasion, the former Guinness chairman and chief executive told the inspectors, had come from Mr Olivier Roux, then Guinness's director of finance, and US attorney Mr Thomas Ward, another Guinness director.

Pressed by Mr David Donaldson, QC, one of the inspectors, Mr Saunders conceded that, with hindsight, the fees had probably been too large. But, he said, "we were talking about success fees American style" following Guinness's successful bid for Distillers.

Transcripts of Mr Saunders' interviews with the inspectors are being read at the trial in which he, Mr Parnes, Sir Jack Lyons and Mr Gerald Ronson, chairman of the Heron group, deny charges arising from an allegedly unlawful share support operation mounted by Guinness during the bid.

Interviewed in February, 1987, Mr Saunders recalled a discussion with Mr Roux and Mr Ward when he had been persuaded that Mr Parnes and Sir Jack should each be paid £3m.

By "persuaded" did Mr Saunders mean he had been reluctant ? asked Mr Donaldson.

Mr Saunders replied that Guinness had just won a very large bid, "Roux particularly felt Parnes and Sir Jack had provided extremely valuable services to him. Ward seemed to agree. We were talking about success fees American-style. What I would say was I did not dissent."

Mr Donaldson: "You were a senior director of this company, did you not form your own view about whether it was proper to spend £3m of Guinness shareholders' money paying Mr Parnes ?"

Mr Saunders said he had been persuaded that Mr Parnes had provided exceptionally dedicated services to Mr Roux.

The trial continues today.

BRITAIN IN BRIEF

TUC joins call for Sarmcol to settle strike

Mr Norman Willis, the general secretary of the Trades Union Congress, of Britain, yesterday added his voice to the campaign for BTR, the UK-based industrial conglomerate, to settle a long-running labour dispute in South Africa write Diane Summers and David Owen.

Mr Willis, who has a long-standing interest in the Sarmcol case, appealed on "moral and commercial grounds" for the company to "modernise its approach". More than 900 workers at BTR Sarmcol in Howick, Natal, were sacked in March 1985 following a strike for union recognition.

BTR's annual general meeting, scheduled for tomorrow, will see vigorous questioning of policies in South Africa by trade unionists with token shareholdings in the company.

The metalworkers' union, which is still in dispute with the company five years later, claims that 139 lives have been lost since the strike began.

Surge in orders for turbines

A surge in North Sea oilfield developments has resulted in some of the biggest orders for offshore gas turbines ever seen in the UK.

Cooper Rolls and Ruston Gas Turbines, the two principal turbine suppliers for the North Sea, yesterday announced a total of £75m in gas turbine orders for generating sets and gas compressors.

British Petroleum has made what it says it the largest single order for gas turbines ever placed for the North Sea with a £35m purchase from Cooper Rolls, the US-UK joint venture which is the biggest offshore turbine supplier worldwide.

Cooper Rolls said that it now has 600 megawatts of turbine generating capacity on order for offshore use. About half of this is for the North Sea.

Smooth switch to new codes

British Telecom said yesterday that London's first day of business with its new telephone codes passed off smoothly.

London's 01 code was replaced last Sunday by an 071 code for the central area and 081 for outer districts because the city was in danger of running out of telephone numbers.

Callers from Paris who dialled the wrong London number, heard a recorded announcement in French giving them the correct code. Callers from Frankfurt and Tokyo heard a message in English, as well as in German or Japanese. BT said it had arranged for most foreign callers to receive a recorded message.

Team leaves Salomon

A team has parted amicably with the London office of Salomon Brothers in order to set up an independent corporate finance boutique called Johnston Associates.

The team will provide broad European services with particular emphasis on Spanish-related investment banking advice. It is led by Mr Donald Johnston, head of one of five merger and acquisition divisions at Salomon in London, who is taking Mr Sekhar Bahadur, Mr Antonio Rodriguez-Pina and Mr John Gibbons with him. Also recruited was Mr Antonio Bonchristiano from Salomon Brothers in New York.

Increase in TV production

Toshiba, the Japanese electronics group, is to increase colour television production at its Plymouth factory from 500,000 to 600,000 sets a year. The increase will generate 90 new jobs.

The Toshiba announcement is part of a pattern of increased Japanese investment in Britain's television industry. Sony announced last year that it would increase production of cathode ray tubes at its plant in Bridgend from 700,000 to 1m a year.

US Vice-President Dan Quayle yesterday paid tribute to the "special relationship" between Britain and the United States when he visited British Prime Minister, Margaret Thatcher at Downing Street. During a short address outside No.10, Mr Quayle said "There is no substitute for Nato. There is no substitute for peace and freedom"

Approval for gas field

The British Government yesterday authorised the the £200m development of the Pickerill gas field in the southern North Sea.

The field's 606bn cubic feet of reserves, with a life of 18 years, will be developed and operated by Arco. The gas will help to fuel the 900 MegaWatt combined cycle gas turbine power station to be built at Killingholme, South Humberside, by PowerGen, a successor of the Central Electricity Generating Board.

Prince launches agency in East

A programme to encourage private enterprise and small firms in Hungary was launched yesterday by the Prince of Wales who is on the first official visit to a Warsaw Pact country by a member of the British royal family.

The agency to advise on the setting up businesses is to be based at the factory of Ganz-Unslet, the largest British joint venture in Hungary.

Mr George Soros, the Hungarian-American financier, offered $250,000 to provide a quarter of the costs of such schemes. Both he and Prince Charles, assumed that the British Government "know-how fund" of £5m a year would provide similar matching funds.

Nuclear plant shuts early

A sodium leak from the secondary cooling circuit of the prototype fast reactor at Dounreay, Caithness, Northern Scotland, shut the plant ahead of its routine summer shutdown. Sodium in the secondary circuit is not radioactive. The leak, from a cracked weld in a heat exchanger, occurred on April 25 and was reported to the government's nuclear inspectors and the UK Atomic Energy Authority workforce at Dounreay.

TECHNOLOGY

The clean life for blood

For an accident victim, a timely blood transfusion could save a life. Yet purging viruses from donated blood is still an impossible task. Blood banks commonly throw away tainted blood.

But an experimental technology for treating cancer could rescue the thousands of pints wasted every year. QuadraLogics, a biotechnology firm based in British Columbia, is cleansing blood using photodynamic therapy – the "fourth alternative" to surgery, radiation and chemotherapy.

The treatment relies on infra-red light switching on "photosensitisers". These are light-sensitive compounds which absorb energy when an infra-red beam of a particular wavelength shines on them. They then emit a toxic form of oxygen called "singlet" oxygen which kills cancerous cells.

The basic principle works in a similar way for cleaning up blood. Collection technicians usually spin donated blood at high speeds, separating it into red blood cells, watery serum and platelets. Each component goes into separate bags.

Under photodynamic treatment each bag would contain a small amount of QuadraLogics's photosensitising drug, benzoporphyrin derivative (BPD). An infra-red light would bathe the bags, either hung up or lying on a conveyer belt, triggering the drug which emits the lethal molecules of oxygen and kills the virus.

The key to the technique's success lies in the drug's affinity for viruses. It tends not to collect in healthy cells. So although the blood parts also absorb light they contain no BPD and remain undamaged.

The long list of viruses lurking in blood includes AIDS, hepatitis, syphilis and cancer-causing HTLV-1 virus. David Dolphin, head of the project, says preliminary work shows that "we can reduce the number of viruses 1m times." But he warns: "We can never claim that our technology will eradicate these viruses completely."

Baxter Healthcare Corporation of the US is sharing development costs with QuadraLogics in exchange for exclusive marketing rights.

Stephanie Yanchinski

Deborah Hargreaves examines the latest automated systems to arrive on the world's futures exchanges

Screen trading sweeps the floor

Back in 1973 the Chicago Mercantile Exchange launched futures contracts on financial products in a move that reshaped the US capital markets. Today new technology is bringing futures to some of the world's less developed financial markets as a whole range of countries hope to join in the black box revolution.

Futures contracts are traded on anything from hogs and orange juice to Swiss francs and Treasury bonds. They are agreements to buy or sell a specified amount of a specific commodity at a date in the future. The fast-moving markets are renowned for high returns and high risk, but they have become an indispensable tool for institutions to hedge their cash investments.

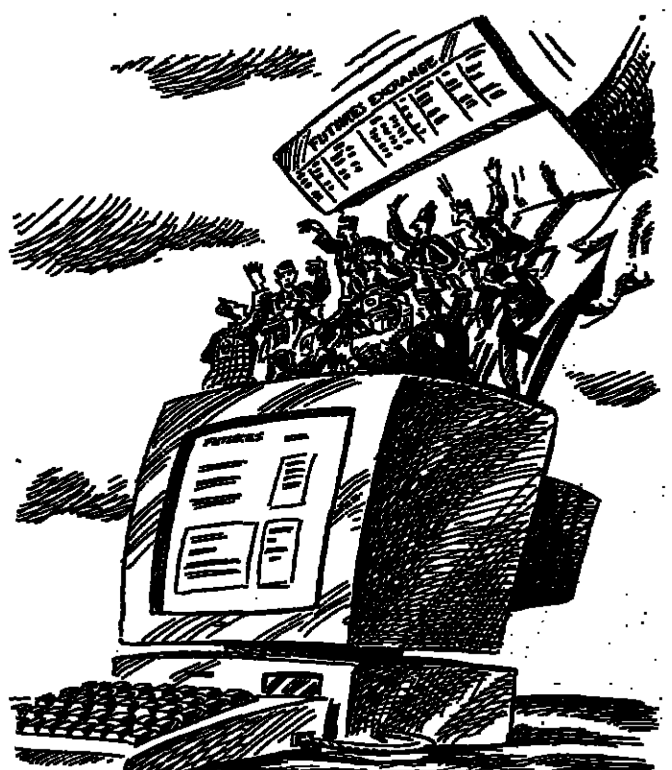
For this reason, many countries with developing capital markets are eager to move into the area of derivatives. Futures have traditionally been bought and sold in squashed trading floors where each broker acts as his own auctioneer yelling out bids and offers which he backs up with a flurry of hand gesticulations. New technology is moving all this on screen.

It is much cheaper to set up a screen trading system than it is to equip a trading floor and train brokers. Derivatives, therefore, can reach the less-established markets more easily. Mexico and Korea are both considering a futures marketplace and Belgium is planning to set up a screen system by next year.

The march of screen trading has been the cause of much controversy in Chicago – the birthplace of futures trading which still leads the world in volume – where independent traders fear they will become obsolete as screens provide users with a direct route to their trading partners. But in many countries with no established system of open outcry futures trading, screens have been used to start a new exchange.

When the New Zealand Futures Exchange started up in January 1985 it was one of the world's first wholly automated derivatives exchanges trading contracts such as bond and wool futures. The exchange got off to a modest start by trading several thousand lots a day. It has since grown into a market for purely financial products with a volume of more than 40,000 contracts a month.

Screen trading proved the answer to New Zealand's specific problems in that its users are spread across the country and there could be no agreement on a location for an exchange. The trading system in place in New Zealand was developed by London's International Commodities Clearing House (ICCH), which has a long-established relationship with the derivatives markets through its clearing function.



The ICCH has since developed a successor for New Zealand's system, offering a more customised trading arena which can be tailored for individual exchanges. This system, ATS/2 (Automated Trading System), was installed at Dublin's International Futures and Options exchange in May last year and for trading in white sugar futures at London's Futures and Options exchange (Fox) in June.

London's automated white sugar contract was launched three years ago in direct competition with a similar product traded in Paris, a market which is not automated. London has developed into the busier market, proving that screen trading can compete successfully with more traditional forms of trading.

The Fox exchange is a hybrid futures market where sugar is traded on screen and other products such as coffee and cocoa still change hands by the time-honoured method of open outcry. Mark Blundell, Fox chief executive, believes the two ways of trading can complement each other. "While the floor is a superb way for filling large orders, electronic trading is a cost-effective vehicle for launching new contracts to gauge their success."

Fox is planning to launch futures on rubber and a metals index in the next few months, both on screen. Blundell does not rule out moving these contracts to the trading floor if they become successful.

White sugar traders at Fox have worked closely with the ICCH over the past three years to modify their system to fit more closely with the traders' needs. But they are likely soon to switch over to a rival system, Fast, which has been developed at Fox and takes ATS a step further.

In the highly competitive market for suppliers of screen trading systems, traders and exchanges can shop around for the most up-to-date technology. John Payne, head of the sugar committee at Fox, says traders started to look around at rival systems when ATS went through a troublesome period of performance last autumn.

When the ATS system goes down, trading in white sugar futures continues over the telephone. This happened quite often during one of the ATS's development phases last October. A system's propensity to fail is an unresolved nightmare for its developers since it can often be caused by circumstances beyond their control.

Nevertheless, ATS's difficulties gave the exchange a desire to pursue its own screen system. Fast is the result – based on an after-hours trading system in place at the Sydney Futures Exchange. While it is a third cheaper to run than ATS, the new system has appealed to traders' fascination with gimmicks by providing a screen that can change colour to suit each trader.

The technology behind most electronic trading systems does not vary much between developers, but screen presentation has been a way of differentiating a product. Fox's new system provides bright blocks of colour with which traders can highlight each function they use. Other systems are equipped with even brighter graphics which try to reproduce on screen the dynamics of open outcry futures trading.

This is what the London International Financial Futures Exchange has done with its Automated Pit Trading system, which it uses to extend its floor hours. APT uses icons to represent traders and relies on a certain amount of trading skill to use.

Screen presentation is turning out to be a big sticking point in talks between Chicago's major futures exchanges – the CME and the Chicago Board of Trade – on combining their two screen markets. Globex, which is being developed by the CME and Reuters and which the exchange is pushing as an industry benchmark, provides straightforward order-matching while the CBOT has bowed to pressure from its independent traders to opt for a system which relies on trading skills to use.

In the end, John Hull, executive vice president at Reuters in the US, believes the company will supply two types of screen for different classes of trader. These will include spreadsheet screens for large brokers – along the lines of Globex's planned presentation – accompanied by more visual screens for individual traders.

The ICCH says it will tailor its screens to the way traders want them. It has been working closely with traders at the New York Mercantile Exchange on the development of an electronic system for trading during the night and is awaiting the exchange's verdict on the pilot project.

Screen trading is yet to be tested in an extremely busy and rapidly-moving market, which is why some of Chicago's traders are so dubious. Electronic trading will not be able to respond to orders as quickly as individuals on a trading floor, they say. Payne, who trades white sugar on screen, agrees: "A low volume market is very suitable for screen trading, but for high volume I have very mixed views. I don't think we're ready to put any of Fox's other contracts on screen."

However, screen trading is proving attractive for exchanges which want to extend their trading hours or as a cheap way to gauge the interest for newly launched contracts. At the same time, it is being used by new exchanges to get off to a start and to link their often diverse market users.

Closer look at TV graphics

Computer graphics engineers at Channel 4 News had a small problem with the state of the art computer equipment that was used to re-launch the news programme last week.

In trial runs, the graphics, which animate television pictures in real time and in three dimensions, gave famous people, such as President Bush and Mikhail Gorbachev, a third eye by distorting their features for dramatic effect.

Television news is not noted for distorted images, but the engineers deliberately set out to distort the topical opening sequence to make it more eye catching.

The idea was to use a computer-generated image of a long magnifying glass, to pass light diagonally over deliberately darkened opening pictures.

The effect was eye catching but the initial computer attempts created the illusion of additional eyes as it passed over famous faces, a problem that was overcome by the time the first broadcast was aired.

The image of the long magnifying glass passing over the opening pictures was created by Channel 4 engineers using computer graphics terminals, known as Harry, made by Quantel of Newbury.

The equipment permits real time animation of designs on video disc for up to two minutes of animation. Any shape, including those on video film, can be made to move, as Harry can be programmed to run modifications to pictures in sequence to create a moving image on top of a piece of news film.

This allowed the engineers to subtly distort and lighten parts of the opening picture, in sequence, to make it look as though an illuminating magnifying glass was passing over the news film pictures.

The process is time consuming, requiring about 45 minutes to complete the title sequence for Channel 4 News, although a short clip of film can be processed and animated in 3D in about 10 minutes, where the rest of a title sequence has been prepared in advance.

ITN was the first television newsroom in the UK to use computer graphics, in 1982. The work was based on ITN's own VT80 computer graphics equipment, based on a Digital Equipment Company Microvax II computer. The VT80 was derived from the earlier VT30, which was used first to provide computer graphics for the television coverage of the 1974 UK general election.

Harry enables the engineers to manipulate in real time action pictures in a computer simulation of three dimensions. Harry is to be used with the existing VT80 computer graphics equipment which also offers animation and with the Quantel Paint Box computer graphics equipment used for the generation of still graphics and pictures in two dimensions. Paint Box is a multi-colour electronic painting system. The still pictures can be incorporated into the animated sequences generated by VT8 and Harry.

Richard Tait, editor of Channel Four News, says the ability to use 3D animated graphics in real time superimposed on news film will not result in changes in editorial judgments about news or the content of the news programme. "The technology will make us more picture conscious and we will look for stronger pictures," he says.

"But we have the graphics power to make things more dramatic for the viewer than they were before. A sudden coup in Libya, for example, where there might be no pictures, could lead us to do a short profile with computer generated animated graphics in 3D."

Tait says the initial aim was to break down the old distinctions between which machines did which work: "The effect is seamless. Computer graphics as we now use it is a way of binding the whole production process together."

Richard Norley, senior designer for Channel Four News, says although Harry can edit up to two minutes of film, the engineers hope to be able to link it to digital video recorders to enable an infinite amount of film material to be processed with animated sequences.

Lynton McLain

FT LAW REPORTS

Distributor can sue in English court

MEDWAY PACKAGING LTD v MEURER MASCHINEN GMBH & CO
Court of Appeal:
(Lord Justice Fox, Lord Justice Parker and Lord Justice Ralph Gibson):
May 3 1990

A FOREIGN manufacturer's obligation to give notice of termination of a distribution agreement to an English company carrying on business as its UK distributor, should be performed in the UK at the distributor's place of business, unless otherwise agreed. And accordingly, where the distributor claims against the manufacturer on the basis of failure to give reasonable notice, he may proceed in the UK, though the manufacturer is domiciled in a country which is party to the Civil Jurisdiction Convention and the sale contract between the parties would have been performed ex-factory in that country.

The Court of Appeal so held when dismissing an appeal by the defendant, Meurer Maschinen GmbH & Co, from Mr Justice Hobhouse's decision (*FT, October 20 1989*) refusing to set aside proceedings served on Meurer in West Germany by the plaintiff, Medway Packaging Ltd.

Article 5 of the Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, incorporated into English law by the Civil Jurisdiction and Judgments Act 1982, provides: "A person domiciled in a contracting state may, in another contracting state, be sued: (1) in matters relating to a contract, in the court of the place of performance of the obligation in question . . ."

LORD JUSTICE FOX said that in a claim for breach of contract Medway pleaded it was an English company, distributing drink and stretch wrapping machines. Meurer was a West German engineering company specialising in manufacture of the machines.

Meurer agreed to appoint Medway as exclusive UK distributor of the machinery, from February 1 1981. It was a term of that distribution agreement, implied by reason of business efficacy, that it could be terminated by either side on the giving of reasonable notice.

In breach of the exclusive distribution agreement, Medway pleaded, Meurer authorised another company to act as UK distributor, purporting to terminate the distribution agreement without giving reasonable notice.

Medway claimed £269,000 damages for breach of contract.

The UK and West Germany were contracting states under the Civil Jurisdiction Convention. Paragraph 2 of the Convention provided that persons domiciled in a contracting state should be sued in that state. However, Article 5 provided that in matters relating to contract he might be sued "in the court of the place of performance of the obligation in question".

Medway contended that place of performance of the "obligation in question" was in the UK.

The present appeal was from a decision of Mr Justice Hobhouse, who refused to set aside service of a writ on Meurer in West Germany.

It was common ground that the case should be dealt with on the basis that Medway must establish a good arguable case.

Mr Justice Hobhouse held that Medway had shown a good arguable case that it had an exclusive distribution agreement with Meurer, and that it was entitled to reasonable notice of termination.

The agreement was informal and undefined. It included an obligation by Meurer to sell goods to Medway at a 15 per cent discount and, arguably, not to sell goods to anyone else in the UK.

Goods sold by Meurer to Medway were ex-factory in Germany. Consequently, so far as the sale contracts were concerned, Meurer's obligation was to deliver the goods in Germany for onward carriage by Medway's agents to the UK.

The judge concluded that Meurer's obligations under the contract were: (i) in Germany, to sell goods to Medway at 15 per cent discount; (ii) arguably, during the currency of the agreement, not to sell goods to any other UK importer; (iii) arguably, to give Medway reasonable notice before terminating the agreement.

Those findings and conclusions were not in dispute on the appeal, nor was it disputed that the relationship between the parties was one of buyer and seller, not principal and agent.

Meurer denied any continuing obligation to supply goods to Medway, or that Medway had exclusive rights. It accepted for the purpose of the present issue that a distributorship agreement existed between itself and Medway.

Paragraph 3 of Part 1 of the Convention provided that any question as to the meaning and effect of its provisions should, if not referred to the European Court, be determined in accordance with principles laid down by any relevant decision of the Court.

In *De Bloos 1976 3 ECR 1497* the grantee of an exclusive right to distribute a product complained of unilateral breach without notice by the grantor and sought damages and dissolution of the agreement.

The European Court determined that where the grantee of an exclusive sales concession charged the grantor with having infringed the exclusive concession, "obligation" in article 5 referred "to the contractual obligation forming the basis of the legal proceedings"; and that in disputes concerning the consequences of the infringement, such as damages or dissolution, the "obligation" was "that which the contract imposes on the grantor and the non-performance of which is relied on by the grantee".

In *Schenavai v Kreischer 1987 3 CMLR 782* a German architect sued a Dutch client for fees for preparing plans of a building in Germany. The Court held that the obligation by reference to which place of performance was to be determined was "the contractual obligation which formed the actual basis of the legal proceedings".

It said "The place in which that obligation is to be performed usually constitutes the closest connecting factor between the dispute and the court having jurisdiction over it,and it is this connecting factor which explains why, in contractual *matters*, it is the court of the place of performance of the obligation which has jurisdiction."

The decision therefore affirmed *De Bloos* as laying down the general test.

Accordingly, the present court had to determine what was the place of performance of the obligation which formed the actual basis of the proceedings.

The *Schenavai* case could not be regarded as supporting, as a general test, either the place to which performance of the contract was most closely connected, or the place where goods were supplied under the contract.

As to the latter, the present court was concerned with the alleged breach of the distribution agreement which contained no provision as to the supply of goods ex-factory in Germany. It was the sale contracts which provided for sales ex-factory.

The question was, which alleged contractual obligation was the actual basis of the present proceedings?

The court was dealing with a contract which was allegedly repudiated and where the repudiation was accepted by the plaintiffs. The repudiation consisted in (a) failure to give reasonable notice of determination, and (b) appointment of another UK distributor.

The first of those related to an obligation to give due notice of determination.

That notice was required to be given in the UK. Unless there was some provision in the contract to the contrary (which there was not), a requirement to give notice to an English company carrying on its business in England must be interpreted as an obligation to give notice at the company's place of business in England.

The company or its authorised officers could no doubt waive that in any particular case, but that would be a concession.

The obligation itself was an obligation to give notice in England. It was therefore to be performed in England.

It could be reasonably regarded as the principal obligation in the case, because it was the giving of proper notice which brought the whole contract to an end.

With regard to breach of the agreement for an exclusive agency, the nature of the obligation was negative. It was an obligation not to supply another English distributor.

The negative obligation could be broken either in Germany or in England.

On the other hand, the grant of an exclusive right of distribution in England carried with it an obligation on the grantor's part so to act in England and Germany as to respect fully the rights of the grantee under the distribution agreement.

In the circumstances, it could not be said that the contract for exclusive distributorship was wholly performable by Meurer in England or in Germany. The judge realistically concluded it was as much performable in one country as in the other.

There was no reason to interfere with his decision. The appeal was dismissed.

Lord Justice Parker and Lord Justice Ralph Gibson agreed.

For Medway: Duncan Matthews (Middleton Potts)
For Meurer: Peter Brunner (Hedleys)

Rachel Davies
Barrister

Executive agencies

Bringing civility to the civil service

Hazel Duffy reports on the process by which the concept of customer-led management is being introduced

There's a lot of talk about service in Whitehall these days; as a result, Britain's ministers and civil servants are being forced to think managerially.

The concept that there is a customer out there somewhere, whether he is a small trader who must pay his VAT to Customs & Excise, or the unemployed who have to sign on in order to draw benefit, has traditionally not had much impact on senior civil servants.

The quest for greater efficiency – which often led to cuts in services – dominated the 1980s. But Margaret Thatcher wants government services to be seen as more caring, and more professional. Long queues at shabby social security offices do not give the right impression.

Efficiency also means people getting their passports on time, or being dealt with civilly by the Inland Revenue. Even the bankrupt might expect more efficient treatment of their plight.

The catalyst for this new way of looking at government service is the executive agency. Two years ago, the Prime Minister endorsed the proposals to set up agencies for the bulk of executive type government work, which were set out in the Next Steps report compiled by her Efficiency Unit.

The bandwagon is rolling along merrily. Eighteen government bodies join the existing 12 to become Next Steps agencies. The Government plans that half of the civil service will be in agencies within the next two years.

Each agency has a framework document hammered out between ministers, the permanent secretary of the department and the chief executive-elect of the new agency. The documents set out the long-term objectives.

Drawing them up has caused a lot of soul-searching within departments. For the first time, ministers and civil servants have had to put in writing what the services actually are, and identify the structure of decision-making.

They have also had to formalise their frequently informal relations with the Treasury. Informal did not necessarily mean that they were good; the relationship involved "a fair bit of shadow-boxing", according to one official

Managers of the agencies set up so far have been told that they can recruit junior and middle manager equivalents, without having to refer to Whitehall, or use the sometimes cumbersome Civil Service Commission recruitment route.

As the bigger agencies get going, this delegation of power to the new chief executives begins to mean something. Stephen Curtis, who runs the Driver and Vehicle Licensing Agency (formerly the DVLC), has about 1,000 staff in this category.

But he has little scope for switching money between different pots within the overall discipline of his budget. Nor can he carry money over from year to year. The Department of Transport wants the agency to become a trading fund, which will enable Curtis to do this.

The Treasury wants to be satisfied that granting the DVLA this freedom – it collects vehicle excise duty as well as issuing licences – will not result in any loss of control over public spending.

For the general public, the performance targets, which will be revised and published each year, are the only means by which to judge the changes in the civil service.

They are two-pronged, covering costs and service standards.

The process of arriving at the targets reveals the interplay between ministers and civil servants, between the chief executives, and their staff in the field.

Michael Fogden, chief executive of the new Employment Service, has been set a tougher target by his minister on getting the unemployed into jobs than his managers believed to be achievable.

But he must also meet the target that a specified proportion of those placed will have been unemployed for a long period, and that a number must be from the inner cities. The targets imply some conflict. It is clearly easier to get people off the unemployment register who have been there only a short time than those who have not had a job for many months.

Fogden also must reduce the percentage of incorrect payments of unemployment benefit, which the ES pays out on behalf of the Department of Social Security. If he meets all of his 20 or so targets, he will get a bonus equivalent to 10 per cent of his salary.

To help him get there, he needs the dedicated support of his managers. For that, he knows he must be able to vary the pay of his managers to reflect the scale of responsibilities.

A manager of the inner-city Brixton office obviously has a tougher job than the manager of the Bournemouth office. For the moment, he can only pay according to civil service pay scales.

A seminar organised recently by the Royal Institute of Public Administration and KPMG Peat Marwick McLintock attempted to focus on service in the non-trading sector.

It revealed senior officials juggling with a concept which has been low down the list of priorities for much of their working lives, and learning how to meet service targets while keeping within tight budgets.

Customer service is not being defined only in terms of agencies. All departments are examining those sections which have some sort of contact with the public.

But the Treasury, it seems, is a bit sceptical. The Treasury, it seems, believes service can only be bettered if more money is made available to departments and agencies. Quite simply, the money is not there. Non-Treasury officials say that the Treasury is only interested in efficiency, not effectiveness.

British Rail's Network South East, which is also told to give its long-suffering public a better service while its financial subsidy from government is progressively cut, was an appropriate case study.

Network South East has some competition, however. Most government services have none, which makes many old-style civil servants wonder what all the fuss is about. Scepticism is clearly common.

"REMEMBER WILKINS, THE CUSTOMER IS ALWAYS RIGHT."

Demoralised by low pay and staff cuts, the middle manager equivalent asks: "What's in it for me?"

Unknown to them, it is a question also asked by some ministers. Most are not enthused by managerial topics. They want to leave their department having been seen to have done a good job. But the benefits of civil service reforms will only come through in the longer term than the normal ministerial span of office.

Managerial converts among senior civil servants are conscious of the problem of convincing staff. A long-serving middle ranking civil servant asked his senior: "What do you mean by customers? This is a public service". Long explanations about the need to change attitudes made no impact.

The dilemma for the emerging managers is that their staff – frequently life-long civil servants – might display commendable qualities like loyalty and commitment to their department. The other side of these qualities, however, is that such people are averse to taking risks; they cling to the rules. The changing civil service wants both.

Some senior civil servants also oppose the reforms, although not openly, of course. Smoke signals are that there is much inside talk of "tension" within departments.

The Department of Social Security, which will be putting the majority of its business into agencies over the next year, refers euphemistically to the tension as being "creative".

What it really means is that the whole relationship of the headquarters and the agencies must be painstakingly worked out to give managers enough incentive to manage.

Whitehall, however, will be intent – too intent, some think – to keep control over the agencies.

Unusually for government, the tussles are being played out more publicly than the private sector would ever permit. But it is still much too early to predict whether the changes in the public sector will be real, or cosmetic.

How customised training can help to retain staff

It is now up to the employer to make more use of collaborative higher education programmes, says **Robert Allen**

In the 1980s the British Government and the country's employers lobbed a challenge at institutions of higher education.

Polytechnics, colleges and universities were told to become more *flexible, more relevant and more* responsive to the economic needs of employers and the nation.

The climate created by government cuts spurred educational practitioners to look more carefully at what they offered. Too often in the past the attitude to employers and individual students was: "Here is what we have. It is self-evidently good. Take it or leave it."

Now many higher education institutions have responded by producing customised training programmes. The polytechnics, in particular, have shifted the balance. What, they will ask employers and students, do you want?

A number of programmes have emerged which have put the onus on the customer. This change is expressed by the increasingly flexible structures that allow students and their employers to put together training packages that are more appropriate to their needs and interests.

The idea of the Credit Accumulation and Transfer Scheme (CATS) – still preached more than practised – has become one of the buzz-words of the last few years. Under this scheme students can transfer into a Polytechnic or College credits for skills and experience they have gained outside the traditional classroom structure; accumulate further credits for work being done in an educational institution; and then move all these credits on elsewhere, if necessary.

Programmes of this type are impressively progressive because they allow students to determine what and how they want to learn. However, their introduction was born of a fear that both the number of students and the funding for them would dry up.

One imaginative form has emerged where the idea of "credit accumulation" has been used to develop schemes specifically for individual employers. Companies like W H Smith, Jaguar, IBM and Sainsbury have looked for new ways of upgrading and updating the skills of their employees in a way that is satisfactory to both employer and employee.

The Woolwich Equitable Building Society, for example, has just held a graduation ball for its first customised graduates. In a scheme run jointly with Thames Polytechnic, students are credited with up to two-thirds of an undergraduate degree on the basis of their in-company and professional training. They then take a package of distance learning, residential courses and project work jointly provided by *Thames Polytechnic* and the company; this provides them with the final credits towards a degree. Such a programme would have been hard to imagine, never mind graduate from, a few years ago.

Providing a network

These sorts of idea are being extended and developed. Their potential is being explored further with a new scheme being set up by Thames Polytechnic in conjunction with the Brewers Society to provide a national training programme. This will include both undergraduate and postgraduate degrees, beginning in 1990 with an MSc (Brewery Business Management).

This employs the same principles as the Woolwich scheme but goes *one step further by providing* a network of polytechnics and universities around the UK which students can attend to gain their credits. The next step, of course, would be to cross the Channel and even the Atlantic.

Such programmes, though they are increasing in number, are still relatively marginal. But they express a change in attitudes which is reflected elsewhere in the higher education system.

But they are not without their problems. Companies and colleges often have to make compromises to accommodate each other's suggestions. Nor have these changes been adopted throughout the British higher educational system. They tend to predominate in the polytechnics and colleges, though there are very obvious exceptions in the university sector.

The picture *is* therefore patchy. But the mould has been broken. It now becomes possible for employers to get what they want.

However, this is not where the story ends. There is now a new challenge – to the employers themselves. British management has often seemed (to its competitors) curiously afraid or disdainful of training. As the recent report from the European Round Table of Industrialists pointed out, expenditure on training per employee is £1,500 in the US, but only £200 in the UK. Too often, those responsible for training strategies still see higher education as a barrier, rather than a means of retaining staff.

Even when they consider higher education they may be very conservative, looking automatically to the universities and to the MBA for management education. Both may be perfectly appropriate; equally they may not. Similarly, the desire to minimise costs often takes priority over a view of education and training as a strategic investment.

Some companies, however, are looking to higher education as a supplier of flexible and collaborative training. Now in 1990 the challenge has changed. The challenge is to industry to take advantage of what has happened: to accept education and training as a long-term strategy; to accept the responsibility for providing substantial funds for the educational sector; to forget its prejudices and pre-conceptions, particularly about polytechnics.

If UK training, particularly at the higher levels, has not improved substantially by the end of the century, it will not be a failure of higher education to meet the challenge put before it, but of the customer.

Dr Robert Allen is the director of educational and training developments at Thames Polytechnic.

Govan Stories

GLASGOW

It may be Glasgow's year as European City of Culture but the trades union-inspired Mayfest remains firmly rooted in the local community. The Scottish People's Theatre, to give the long-established 7: 84 company its full name, will be touring its celebration of Govan to various arts centres next week. This week it can be found in The Arches, a wonderfully atmospheric space: a vast, windowless *complex of stone* walls and brick vaults from an Expressionist film (*Metropolis* crossed with *M*) which houses the exhibition "Glasgow's Glasgow" besides bars, shops and a theatre.

The company of five young actors under Roanna Benn's direction has compiled a dramatisation of writing about the great ship-building area by its residents, some of whom turned professional, others observing their neighbourhood as a labour of love. At one extreme is Elizabeth Crombie Reid (81 this year), whose evocation of the wives' revolt when they discovered how much their husbands earned in "Pay Poke Explosion" conjures a picture of warm and funny street-life with sturdily separatist working-men, their outraged womenfolk and well-turned out prostitutes. At the other, 15-year-old Kelly McCahill, a pupil at the local secondary, provides a series of wide-eyed letters about life, love and school to an Indian pen-pal that show up Adrian Mole as archly artificial.

The mixture of affection and detachment is summed up by James Miller who died last year, a professional writer who never gave up his job with Govan Shipbuilders. His childhood memory of working as butcher's boy to help an unemployed dad, and the sardonic anecdote about the old tideline cleaner whose ability to fish out rotting animal corpses is finally recognised as irreplaceable even by the management efficiency expert (arrogant English accent) are vivid, warm-hearted glimpses of an insider.

If a consistent theme emerges it's that Scottish men can be pretty chauvinistic. Bill Kidd's "Just Like Him" chillingly recalls the brutal masculinity of a father despising a bookish son; and how the son despises the violence he discovers in himself. Martha Feeney's "Divorce" is a funny and trenchant look at how a victim finally retaliates against her violent husband; and David McTeague's "Words Dissemble" is a wickedly accurate (if, to a southerner, occasionally unintelligible) dialogue between two schoolboys assessing the sexual potential of the girls they know with much bravado, giggling and achingly cumbersome jokes.

Some of the items have a dramatised documentary ring – "The Junkie" is a bit too much of a catalogue of symptoms – and the study of an unemployed man, mentally ill, going to pieces in the daily blurred eternity of smoking, dozing, radio time signals, trying to remember what he has to do today, is split by the interval, thereby ruining its continuity. But the stylistic range (and Peter Hutton's poetic impressions, as terse and economical as a Chinese water-colour counter the robustness) is impressive. The cast is uniformly excellent, though invidiously I would advise you to watch out for Eleanor Slaven and Tom Smith, the youngest of the company and immensely promising.

Martin Hoyle

TELEVISION

Characters good, bad and indifferent

New comedy on the BBC, spawned by radio: 'KYTV'

Which of the new comedies seems likely to last? *The Upper Hand* on ITV on Tuesdays looks like an efficient little number, written to a carefully contrived formula: a male housekeeper arrives with his streetwise daughter to work for the rich woman advertising executive who lives with her too-clever-by-half son. (Told to see who is at the front door he does just that, and leaves them there.) An Anglicised version of an American hit, it looks as though the situation will be stronger than the characters.

KYTV on BBC2 on Thursdays is created by Radio 4's *Radio Active* team. Many of the lines in Episode 1 sounded like radio scripting and – disconcertingly, and contrary to expectation – they seemed less sophisticated on television than on radio. Gags such as announcing "Robert Dougall's Cartoon Hour" and "Current Affairs With Fatima Whitbread" do not seem awfully funny on television. Out in front by a furlong is another foal sired by BBC Radio: *Up The Garden Path*. Here the central character, Izzy, is so thoroughly zany that you worry lest she – like Magnus Pyke, Lucinda Lambton and other professional television "characters" – palls quickly. In the first episode, however, as performed by Imelda Staunton, she was likeable and hilarious from the off: living in a pigsty, guzzling cake, swooning over her lover, Michael, a married man played by Nicholas Le Prevost (one of the best deadpan comedians around) she had all the character you could possibly want.

★

Commentator Ted Lowe has done as much as anyone, except perhaps the BBC cameramen and OB directors whose extraordinary skills are rarely noticeable until you see the game being covered elsewhere, to push snooker up the list of popular television subjects. But before next year's *World Snooker Championship* somebody should speak to him about his style. Everything he says is now delivered in a dramatic whisper, and the portentousness has become embarrassing. Oral exclamation marks hang on the end of every snatch of melodramatic rhetoric: "I *wonder* what's going through his mind!" . . . "So! The fortunes once again change!" He would do well to go back to the basics of expert analysis, delivered at good long intervals.

Judging from the evidence offered by Christopher Terrill's *Inside Story* on BBC1 about racism in sport, it is disgraceful that the highly successful athletics coach John Isaacs was not selected as an official coach for the Los Angeles Olympics. He is black. That there are regular shouts of "Shoot that nigger" during Everton football matches is disgusting. If Jackie Agyepoy really was consistently faster than the white hurdler selected in her stead, the selectors should be hounded. That said, it is not much help to have yet another programme which sets out to reinforce the preconception that Britain is a uniquely or even unusually racist country. Sadly racism, like tribalism, seems to be a universally distributed human characteristic. So how does it help to have this programme producing a professor who asserts that sport is the one place there is a "gleam of hope" for black success in Britain? Are Trevor McDonald and Moira Stuart figments of our imagination? Are they not a glimmer in the business of television journalism? Or Gary Wilmot and Lenny Henry – don't they represent a glimmer in comedy? Is the black domination of rap *not another glimmer*? Ah, but that is all, well, you know, show business. Yet nobody prevents Professor Stuart Hall or Beverly Anderson appearing as pundits/sociologists/teachers. Are Paul Boateng and Diane Abbott *not a glimmer* in politics? Television's habit of taking the worst examples of racism in Britain and pretending that there are no countervailing bright spots may be one of the reasons why the ideal of integration is now disintegrating as black people form more and more exclusive groups, in sport, music, politics – everywhere. It is a depressing example of television's dreadful lack of subtlety and discrimination.

★

What a pity the studio discussion following the last of BBC2's *Troubleshooter* series was such an uninspired and uninspiring affair. The producers appeared to have invited into the studio as many participants as there were minutes in the programme, and then ensured that nobody had proper time to speak because they got chairman Brian Redhead to cue a clip from every programme in the series. Since we had just watched the episode about Morgan cars which exemplified many of the most interesting problems in British manufacturing detected by Sir John Harvey Jones, we might have had a far more interesting programme if the producers had had the courage simply to put Sir John up against those who do not believe that the bottom line is the holy grail.

★

My first reaction upon receiving review copies of two books about London Weekend Television – *Running The Show* by David Docherty and *The Walden Interviews* edited by David Cox (£16.95 and £14.95 respectively, both published by Boxtree Ltd.) – was to wonder whether we could possibly need either. After all, the minutiae of ITV history have been pretty well documented now, what with the Sendall/Potter trilogy and numerous other books in recent years; and the point about Brian Walden's interviews is that they are such good television. But having read most of both over the Bank Holiday weekend I shall be delighted (despite desperate space problems thanks to the recent avalanche of media books) to add them to my collection. Docherty's account of LWT's fortunes is an abnormally successful combination of formal history and personality chat: everything from the night a furious Rupert Murdoch stormed out of David Frost's programme vowing to buy the company, to the details of the rows over the Dennis Potter plays. It is highly readable. So is the Walden book, yet that is valuable for two other reasons. First there is Cox's fascinating introduction describing how Walden is prepared for each interview by his production team. Secondly there is the value of *being* able to go through the interviews with Thatcher, Lawson and so on at your own speed; quite different from watching them flit by on a Sunday morning.

★

The tendency for television to screen supposedly ironic documentaries about the print medium is becoming a teeny bit tiresome. Do not assume this is the reaction of a touchy print journalist: I have for years, as the files will show, been calling for television to start doing as good a job of criticism, in all senses, on print as print does for television. Every day you can find *somewhere* a newspaper critic celebrating something marvellous seen on the box. When did you last see a television programme celebrating something marvellous found in print? *Viz, The Documentary* on Channel 4 was much like the BBC's recent *Killer Bimbos On Fleet Street*. It is an indictment of *Bimbos* that anyone who does not read the tabloid papers would have left the programme with only the vaguest idea of what sort of publications these "bimbos" are producing. The programme was so busy trying to joke away the ineffectuality of feminism in Fleet Street and to parody tabloid style that it never *managed to tell you* anything much about the female journalists or their journalism. *Viz* suffered from a similar curious determination not to do anything so embarrassingly gauche as offer facts. It was never made clear who reads this scatological, yet highly successful comic – children, teenagers, or adults. Indeed the producers were so preoccupied with parodying current affairs techniques (from Roger Cook's to *World In Action*'s) that the subject pretty well disappeared.

★

It is one of the joys of television that you never know where or when you are going to bump into something wonderful – as you switch to avoid some ghastly quiz or zap from the news to a comedy. But it can also be tantalising: too often you catch the last 15 minutes and are left suspecting you have missed something superb. The latter part of Sunday's *Everyman* on BBC1 was spellbinding, and I hope a quick repeat is planned. It looked marvellously simple: soldiers explained how it felt to fight and kill other people. Producer Pamela Smith left out the questions, let the men talk, and simply interspersed some Falklands footage. The only other television programme I have seen which matched this *Everyman* on its subject was Charles Wood's magnificent drama *Tumbledown*.

Christopher Dunkley

Das verratene Meer

DEUTSCHE OPER, BERLIN

With his new stage work *Das verratene Meer*, introduced on Saturday at the Deutsche Oper in a production by Götz Friedrich, Hans Werner Henze retraces the operatic thread that he seemed to have abandoned after *The Bassarids* of 1966. The intervening decades took his work in other directions – into musical agit-prop after 1968, a tendency culminating in the "actions for music" *We come to the River* for Covent Garden in 1976, and later towards a stylistic pluralism in which parody and pastiche rubbed shoulders with a variety of "authentic" voices: *The English Cat* (1983) and Henze's exuberant reorchestration of Monteverdi's *Il ritorno d'Ulisse* (1987) embodied that phase. But there are no such masks or filters distancing the composer from the drama in *Verratene Meer*; if such a thing as a single Henze idiom can be identified, then the score exploits all its facets, from terse, explosive expressionism to ever-extending lyricism.

Das verratene Meer ("The Treacherous Ocean" seems the likeliest English title) has a libretto by the poet Hans-Ulrich Triechel, based upon Yukio Mishima's *Gogo No Eiko* (*The Sailor who fell from Grace with the Sea* in the best known English version). For anyone who finds the mixture of Japanese nationalism, sado-masochism and homo-eroticism in Mishima's later novels a queasy one, this tightly drawn novella represents his art at its most palatable – a story of crisp imagery and pellucid description, in which his perennial themes of honour and sacrifice are compellingly interwoven.

Noboru is a 13-year-old boy *in post-war Yokohama*. He belongs to a precocious gang of teenagers clinging to the ideals of the old Japan, to its codes of honour and the inexorable cruelty of fate. He spies upon his mother, Fusako, and watches with alarm her burgeoning affair with the seaman Ryuji; the sailor represents all that is wrong with the new, increasingly Westernised Japan, in its soft-centred, adult compromises, and particularly his willingness to forsake an "heroic" career at sea to remain with Fusako. The gang sees no alternative but to remake Ryuji as a hero by giving him a hero's ritual death.

It's a disturbing opera subject, at once strangely foreign to Western sensibilities but still striking all kinds of tangential chords – about hard-edged youthful expectation and adult acceptance, and the clash of modernism and tradition. Treichel's libretto removes some of the important subtleties – there is, for instance, a strand in Ryuji which yearns for the old heroic life, and which leads him to a half-acceptance of the fate the boys prepare for him – and it tends to iron out the protagonists; the mother Fusako in particular, who is given Henze's most glorious vocal writing, hardly develops the core of warmth implicit in the novella so that the boy's conflicting loyalties to his gang and to his mother are never firmly grounded.

Henze though develops the scenario with immense seriousness and skill. His score is laid with great structural care – distinct groups of material for the mother, the sailor and the boy and his friends – and separate sound worlds *too* – strings to accompany Fusako, wind for Ryuji, piano and tuned percussion for the boys.

The first act, set in the spring, is full of sharp contrasts, costive string chords, pounding brass toccatas; the second, "Winter," is altogether thinner, the lines stretching themselves, the inventions marvellously telling. The scene in which the gang plots the murder in meticulous detail is the opera's crux, and produces a sequence of haunting musical images. The proportions are not quite right; when the awful climax is inevitable the action needs to hurry towards it but instead seems to hang fire fractionally. The cruelty in the story too is never quite realised musically; Henze is by inclination a generous (some would say uncritical) musical inventor and the toughness the drama sometimes requires is lacking.

That apart, though, it is a score full of telling moments and richly heterogeneous sounds grafted onto its bone structure, the orchestral effects mixed with tapes of shipyard sounds, mewing gulls and urban clamour. It's a mixture that worked rather better than the assemblage of Friedrich's staging, in which Hans Hoffer's revolving concentric cylinders provided more mechanical fascination than elucidation and some touches of *japonaiserie* – a gaggle of geishas at one point, leering kabuki masks at another – seemed quite of place when Henze had been at such pains to avoid any suggestion of fake orientalism. More critically, Friedrich offered little to the characters, so that the weaknesses in the scenario were left utterly exposed.

Musically things were much better. Stephanie Sundine was unable to sing the part of Fusako but acted through it while the lines were sung, expertly, for Henze's soprano writing is fiercely demanding in the Lulu mould, from the side of the stage by Beverly Morgan. The baritone Andreas Schmidt was the sailor, rather obscured vocally in the first half, coming to terms with the role better in the second, and the tenor Clemens Bieber the son, inevitably a little old looking as was the whole gang (more important than it might seem, for Mishima makes clear that the boys will not be punished for the murder, because the age of criminal *responsibility* is 14).

The conductor was the young Markus Stenz, producing a wonderfully rich sound from an orchestra which could have been delivering this score for years; there is more than enough in it to deserve such devotion.

Andrew Clements

Bintley work postponed

The Planets, David Bintley's new work for the Royal Ballet, has had its première postponed from May to August 1. *It will be replaced in the* schedule by Frederick Ashton's *A Month in the Country* with Sylvie Guillem making her debut in the role of Natalia with Antony Dowell as the tutor.

Beatrice and Benedict

MUSIC FACULTY, CAMBRIDGE

Undaunted by the fact that one of our national companies has recently scored a success with *Beatrice and Benedict*, Cambridge University Opera Society decided to have a go at the piece themselves.

Berlioz's enchanting Shakespearian opera is notoriously difficult to stage, so, if you think you have an idea that will make it work, there is no reason to hold back, even at student level.

In its attempt to fuse dialogue and delectable musical numbers within a light comic framework *Beatrice and Benedict* holds both the source of its fascination and its downfall. Where English National Opera chose to update the spoken text, the Cambridge production by Stephen Taylor made a conscious about-turn and reverted to the original Shakespeare. It also reinstated material that Berlioz had omitted.

The result was to give the opera's precarious balance a telling nudge towards the spoken word. As with the ENO production of *Faust*, one appreciated how the dialogue is able to cut quick and deep beneath the skin of the characters and make the spoken scenes carry the *emotional* weight – a real gain, even though Berlioz's score now seemed to run out at the crucial moment.

The climax of the evening fell in a scene without music. The production was fortunate in its leading couple. Korby Myrick used her stage experience to lend a superior air to Beatrice, while showing how a warm mezzo can move around the vocal part with ease. The viperish glances that she kept shooting at Benedict were met with a winning smile and puppyish sense of humour by the tenor Mark Le Brocq. His voice has gained in fluency since his time at the RAM and should earn him a useful career.

Alongside the central pair there was a mixture of nervous mumblings and end-of-term high jinks, though Andrew *Morton's Claudio and Pip Glenister's* Don Pedro both strode the stage with confidence. The Hero of Katy Tansey and Ursula of Joanna Campion compensated by singing their lovely nocturnal duet with a near ideal purity of sound and Alexander Platt strove to support his cast with disciplined playing from the pit. Perhaps ENO might think again.

Richard Fairman

Alastair Muir

Carol Vaness in the revival of Piero Faggioni's 1989 production of 'Il trovatore' which opened on Monday at Covent Garden

ARTS GUIDE

May 4-10

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical in Jerry Zak's desperately bright production comes from the Lincoln Center in New York and is undemanding fare (734 8951, cc 836 2428).

Jeffrey Bernard is Unwell (Apollo). Tom Conti is the alcoholic journalist in Keith Waterhouse's fine play, the season's highlight, from Bernard's own writing. Ned Sherrin directs (437 2663).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a probable, but unspectacular, hit (839 5972).

Bus Stop (Lyric). Glam revival of William Inge's 1955 Kansas comedy, with Jerry Hall making her West End debut. Plenty of glow but not much grit (437 3686).

Shadowlands (Queen's). Four-tissue weepie about the love affair between crusty Oxford writer C.S. Lewis and the cancer-riddled American poet Joy Davidman. William Nicholson's play is irresistibly emotional. Elijah Moshinsky's direction is superb (734 1166/439 3849).

Stuttgart

Makal City Theatre, Marienstr. 12. Peter Makal, director of the Stuttgart-based International Festival of Mime, has put together a truly world-class programme. Founder of the Makal Theatre, he will present a dozen specialist groups and artists from eight countries. Ends June 4 (0711/626206).

New York

Cat on a Hot Tin Roof (Eugene O'Neill). Kathleen Turner, whose statuesque good looks embody Tennessee Williams' vibrant character Maggie, is surrounded by an excellent supporting cast in Howard Davies' production.

Grapes of Wrath (Cort). The Steppenwolf company's interpretation of the Steinbeck epic novel has taken a long time to reach New York from Chicago; the wait was worth it.

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer accompanied by the musical and emotional flavour of the period (239 6200).

Gypsy (St James). This 30th anniversary production does more than revive a rich, vivid musical; it also introduces a new belter in the Merman tradition, Tyne Daly, as the bossy, tireless and tuneful Rose, who shamelessly leads her daughter into burlesque while rejecting a personal life for herself (246 0102).

Grand Hotel (Martin Beck). Tommy Tune, Broadway's present musical doctor, directs this remake of the Garbo film in an elegant, but somewhat random setting (246 0102).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town, West Side Story* and *Gypsy*. But a contemporary crew of Broadway aspirants lack the multi-talents that inspired the heyday of the musical.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Phantom of the Opera (Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Serafina (Kennedy Center Opera House). The spirited teenage cry for freedom, including shrill enactments of police brutality, brings the hyper-reality of South Africa home with a lively beat. Ends May 27 (467 4600).

Chicago

Uncle Vanya (Goodman). Michael Maggio directs John Mahoney in David Mamet's new adaptation of the Chekhov classic. Ends May 26 (443 3800).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

Fraternity (Pegasus Players). *Jeff Stetson's political drama* focuses on the civil rights movement of the 1960s and 70s. (271 2638).

A Chorus of Disapproval and The Beggars Opera (Court). With clever scheduling, Alan Ayckbourn's comedy about putting on *The Beggar's Opera* appears in repertory with the work itself. (753 4472).

Elliott Loves (Goodman Studio). Director Mike Nichols teams up again with writer Jules Feiffer to explore middle-aged love. Ends *May 13 (443 3800).*

Tokyo

Kabuki (Kabuki-za) Performances this month feature two leading onnagata (specialists in female roles), as well as a traditional name-taking ceremony. Excellent earphone guide in English and English-language programme. Ends May 27 (541 3131).

King Lear (Sogetsu Hall, near Omotesando). Japanese avant garde director, Tadashi Suzuki, working with American actors, has produced a radical reworking of Shakespeare's tragedy (In English), Thurs (408 1126).

Peer Gynt (Aoyama Theatre) Japan's most famous director, Yukio Ninagawa, tackles Ibsen's "unstageable" masterpiece in Japanese, with a cast headed by two popular young rock singers. Should be fun (201 7777).

Noh (National Noh Theatre) Ataka: the famous story of the servant Benkei and his lord Yoshitsune, who disguise themselves as itinerant priests to pass a military checkpoint. Known also in kabuki as *Kanjincho*. Wed at 1pm (423 1331).

SALEROOM

Stabilising around £1m

The two most vital weeks in the history of the salerooms – not too much of an exaggeration given the predicted total expenditure on art of around \$750m in New York over the next fortnight – got off to a sound but not startling start on Monday when Christie's disposed of contemporary art for just over \$40m (£24m).

The downside was the 25 per cent unsold. This would have been *reasonable* three years ago but since then contemporary art has taken off, almost rivalling the Impressionists in value, and the high bought in percentage reflects the caution which has entered the world's financial, and consequently the art market, in the last six months.

Still there were many impressive prices, nor least the \$6m (£3.6m) paid by the Fuiji *Gallery of Tokyo on behalf of* Mr Wanibuchi, a Japanese businessman, for "Kiss II," a large canvas by the arch pop artist Roy Lichtenstein of two lovers kissing. Painted in 1962, this cropped, cartoon style, painting needs no words. It was a record for Lichtenstein but plum in the middle of its estimate.

The New York dealer Richard Gray paid \$5.17m (£3m) for "Pèse Cheveu" by Jean Dubuffet, painted in 1962 as part of his Paris Circus series and showing all the vitality of its subject. It was a record for the artist, and went comfortably above forecast.

The Gagosian Gallery paid \$3.74m (£2.24m) for "Untitled XII" by de Kooning, a 1982 work in which the symbols *inherent in landscape are* explored through subliminal references to nature. "Brown, black and blue" by Rothko went for \$3m (£1.8m); "Round the World" by Sam Francis for \$1.8m (£1.2m); and "Untitled," one of seven paintings from his "Back series" for \$1.1m (£658,6783), a record for this artist. The height of the canvas, 69 inches, represents the height of his wife but the original intention of making it 15 inches in width, reflecting his wife's back, was defeated by aesthetic second thoughts.

Another record was the \$1.1m paid for "1955-D," a red canvas by Clyfford Still. The price was way below its top estimate of \$5m, reflecting the fact that the auction houses are well aware that they are operating in a less certain economic climate, and are advising vendors to accept conservative bids.

In all there were ten artist records and eleven lots topped \$1m. It all goes to show that the art market is coming down from the peaks of a year ago but is stabilising at a high, but perhaps sustainable price level.

Antony Thorncroft

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NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700

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The training challenge

THE history of British vocational training and education is largely a history of failure. Good intentions have never been translated into effective action. As a result, more than a century after concern was first voiced, Britain still possesses neither a network of high quality technical schools nor a flourishing industrial training system. Companies, schools and government have all failed to address the needs of the average employee.

The need to improve training is now widely recognised. Changes in the nature of work have rapidly increased the skill demands of most jobs. Companies and other employers require flexible, well-educated staff capable of showing initiative and responding rapidly to changing circumstances. Training programmes need to be broadly based and not tied to the short-term needs of particular jobs.

The UK Government has accepted the case for reform. It is creating a network of 82 employer-led Training and Enterprise Councils. The TECs will be expected to assess local training needs and find ways of meeting them. They will assume responsibility for publicly-financed schemes for training young people and unemployed adults.

A second plank of policy is to set clear national training standards. The National Council for Vocational Qualifications (NCVQ) is attempting to rationalise a jungle of vocational qualifications created over decades by a plethora of grant-awarding bodies. Existing qualifications are being slotted into one of four ascending levels of vocational competence. The NCVQ is also vetting a wide range of new vocational courses, many in sectors which did not previously award formal qualifications.

Experimentation with training credits or vouchers is a third – and more tentative – strand of policy. Young people in pilot schemes run by TECs will receive credits with a face value of up to £1,500. They will be able to spend the vouchers on training offered by their employers or by specialist training providers. Credits are intended to play a motivational role – both encouraging youngsters to invest in their own futures and dissuading employers from offering jobs without training.

There is much to welcome in this policy framework. The TECs seem to be generating considerable support in the business community; such enthusiasm is a vital precondition for a successful reform of training. The combination of national competence standards, overseen by the NCVQ, and flexible delivery of local training programmes, overseen by employers, represents a judicious balance between central direction and local autonomy. Training credits demonstrate a welcome willingness to embrace new ideas.

Wrong signals

But big problems remain. The Government is right to argue that industry should spend more on training. But it is sending the wrong signals by sharply cutting its own spending just as TECs are trying to mobilise support. The budget for youth training is being cut by 25 per cent over three years. Allowing for inflation, this implies a real cut of perhaps 40 to 45 per cent.

It would make more sense to maintain the real level of expenditure on youth training. The demographic dip would then allow a rise in per capita spending and a long-overdue improvement in the quality of programmes. In the past, far too many youngsters on government schemes have ended up (at best) with rudimentary qualifications. This was partially a reflection of funding: quality training cannot be provided on the cheap.

Funding, however, is only part of the story. In training, the Government must also provide clear leadership: it must set the goals by which the community as a whole will be judged. Last year, Sir Norman Fowler did just this: half the employed workforce, he said, should achieve the NCVQ's level three (roughly the vocational equivalent of A levels) by 2000. Mr Michael Howard, his successor as Employment Secretary, has dismayed many in the training world by refusing to endorse such goals. He argues (wrongly) that the narrow performance targets set individual TECs are a substitute for these wider objectives.

TECs, moreover, are clearly a product of the 1980s when the priority was to cope with sharply rising youth unemployment rather than to boost skill levels. Around 90 per cent of their budgets is absorbed by programmes targetted at the young jobless and the adult long-term unemployed. Such schemes fulfil important roles but they do not address the training needs of the bulk of the workforce, nor do they offer a substitute for the rigorous apprenticeship schemes found abroad.

National standards of vocational competence are crucial if Britain is to raise the quality of training. Yet it is far from clear that the NCVQ's approach is sufficiently rigorous. In continental Europe, examinations are externally set and marked; and trainees have to pass both written and practical tests. Similar procedures are necessary in Britain if employers are to take vocational qualifications seriously. An increase in the breadth of vocational courses is also essential: on the Continent, in addition to mastering a wide range of technical skills, trainees are normally also expected to continue studying academic subjects such as maths and languages. This ought to happen in the UK.

Lack of teachers

The UK's educational reforms are threatened by a lack of qualified teachers. The same constraint applies in youth and adult training; the difference is that it is almost certainly more severe. After decades of neglect and the near disappearance of traditional apprenticeships in many industries, the UK lacks the human resources required for a training revolution. It has nothing to compare with the West German *Meister*, who plays such an important part in the training of young recruits. If Britain wants to raise the standard of industrial training, it must invest resources in the training and certification of *trainers*.

As the Government seeks to improve youth and adult training, it will have to confront two fundamental questions. The first is the risk involved in relying so heavily on voluntary action by employers. There is no guarantee that the present burst of enthusiasm will last. Employers do not have a direct interest in the training needs of the wider community: TECs, like so many previous initiatives, may easily prove a disappointment.

During this century, the school leaving age has risen in tandem with the intellectual demands of employment. It may now be time to consider an element of compulsion in training. It would not be draconian to insist that *all* 16 to 18 year olds engage in some form of part-time training. Legislation that obliges companies to release youngsters for training would do more to concentrate industrial minds than any quantity of ministerial exhortation. It may be the only way quickly to raise skill levels.

The other fundamental issue is the role which schools should play in vocational training. The absence of a tier of technical schools comparable with those found on the Continent and in Japan is the single biggest failure of British post-war educational policy. But if the 14 to 18 year old curriculum was reformed to meet the needs of the majority, many vocational qualifications could be achieved by students in full-time education. A more determined attempt to raise the school staying on rate must accompany efforts to expand employer-led training if the UK economy is to remain competitive in future decades.

TOP TEN FRENCH BIDS IN US...

Bidder	Target	Value $m	Sector
Axa Midi Assurances*	Farmers Group	4,500	Insurance
Rhone-Poulenc	Rorer (68% stake)	2,200	Drugs & Health foods
Compagnie de Saint Gobain	Norton	1,900	Abrasives, ceramics, plastics
Groupe Michelin	Uniroyal Goodrich Tyre Co	1,500	Tyres
Pechiney	American National Can Corp	1,260	Metal cans,boxes,foil.
Société Elf Aquitaine	Pennwalt Corp	1,050	Chemicals
Bull Group	Zenith Data Systems	[illegible]	Electronic data systems
Total Cie Française des Pétroles	CSX Oil & Gas	[illegible]	Oil & gas
Bidermann	Cluett Peabody	600	Clothing
Sanofi	A.H. Robins	600**	Chemicals

ACQUISITIONS IN EUROPE

Buyer	Target	[illegible]	[illegible]	[illegible]	Sector
Victoire	Colonia Versicherung	W.Germany	[illegible]	[illegible]	Insurance
Rhone-Poulenc	RTZ Chemicals	UK	100	[illegible]	[illegible]
BSN	Jacobs/Huntley & Palmer	[illegible]	[illegible]	[illegible]	[illegible]
BSN	Galbani	Italy	[illegible]	[illegible]	[illegible]
BSN	Smiths Crisps	UK	100	[illegible]	Snacks
Orkem	Coates Brothers	UK	59	469	Inks & resins
BSN	Walkers Crisps	UK	100	449	Snacks
Credit Lyonnais	Credito Bergamasco	Italy	15	407	Banking
Lafarge Coppee	Cementia	[illegible]	60	363	Cement
Suez	Baltica Holding	Denmark	23	354	Ins. & financial

...to $425m ***Withdrawn on emergence of rival bid

George Graham on French foreign takeovers

Voracious appetite for acquisitions

Bosses at the French glass and piping group Saint-Gobain must have permitted themselves the odd triumphal look in the direction of Britain in recent days.

First came the announcement two weeks ago that Saint-Gobain had agreed to buy Norton, the US abrasives and industrial ceramics company, for $1.9bn – 20 per cent more than Britain's BTR had been offering for the same company. Then last week the French group bid £95.5m for the UK glass fabricator and distributor Solaglass – right on the doorstep of its British rival Pilkington.

Saint-Gobain's moves are merely the latest in a series of ever-larger foreign acquisitions by French state and private companies over the past two years.

Among the bigger deals have been the aluminium company Pechiney's $1bn takeover of American National Can in 1988, BSN's $1.15bn purchase of Nabisco's European biscuit operations, Michelin's $1.5bn deal to acquire Uniroyal, and Rhone-Poulenc's multi-stage takeover of Rorer, the US chemical company.

The total value of French acquisitions abroad has sky-rocketed, to FFr76bn in 1988 and FFr108bn in 1989. And in the process, French companies like Saint-Gobain – regarded as tired businesses in outmoded industries – have established new international credibility. "It has taken some time, but we are now taken seriously," sighs an investment banker.

What lies behind this sudden stampede overseas? And are French companies in danger of biting off more than they can chew?

The surge of activity is partly explained by the state of French financial markets. The Paris stock market has been moving steadily upwards ever since the crash of October 1987, and, unlike other exchanges, its momentum has not slowed down this year. Second, the strength of the franc and the downward trend in French interest rates makes debt financing much less of a finance director's nightmare than in the UK.

But there is more to it than that. French companies have also been reacting to the unleashing of an appetite that had for years been pent up. Exchange controls, in conjunction with the strength of the dollar in the mid-1980s, once ruled out any North American acquisitions. The nationalisations of 1981 reduced the freedom of many of the largest French companies to make acquisitions abroad, and made them less welcome when they tried to do so. And in any case, the bulk of French business used to be strapped for equity capital and heavily overburdened with debt – hardly conducive to a takeover binge.

These constraints no longer exist. Exchange controls finally disappeared at the beginning of this year, but for companies they had already been largely dismantled some time before. Nationalisation, too, has ceased to affect the important companies privatised between 1986 and 1988. Those that remain in the state sector have been encouraged to expand abroad, and to finance their expansion by tapping the capital markets with a variety of instruments.

The financial position of French companies, too, has changed radically. A study conducted by Crédit National, the long-term financing institution, shows that a sample of about 50 of France's largest companies boasted combined net losses of FFr7bn in 1982; they barely broke even in 1983, but moved to combined profits of FFr102bn last year. Their total debt has been reduced from 4.5 times cash flow and 1.6 times equity in 1985 to 2.3 times cash flow and 77 per cent of equity in 1990.

Many French companies have also felt spurred to expand by the impending changes in their business environment. The opening up of the European internal market in 1993 – formerly viewed by many French managers as a threat – is now seen as a gleaming opportunity. It has prompted companies in sectors as different as chemicals and insurance to begin a quest for the critical mass thought necessary to compete in this new, wider arena.

French companies are certainly assisted in this search by the relative lack of financial market pressure. They can afford to take a longer-term view of the profitability of their investments than their "Anglo-Saxon" competitors in the UK or US.

The Paris Bourse may make the same kind of analysis as Wall Street or the City – shares often fall sharply in the short term, as Saint-Gobain's did two weeks ago on the announcement of a large takeover. But the market sanction is not as heavy: for even though French companies appear to spend their time building "hard cores" of friendly shareholders and setting up other forms of takeover defence, they actually have little fear of a hostile bid.

"There are not many takeover bids in France, and hardly any of them are hostile; and we certainly don't have any raiders waiting to take advantage of a temporary weakness in a company's share price. Instead of being obsessed by their short-term financial results, companies can look at long-term issues," says a leading French takeover specialist.

Managers such as Mr Antoine Riboud, chairman of the BSN foods group, though apparently obsessed by the fragility of their capital, are quite happy to accept earnings dilution after a major acquisition. Three years is widely regarded, both by businessmen and by Paris financial analysts, as a reasonable time horizon for earnings per share to return to their pre-acquisition level.

Mr Riboud showed with his restructuring of Générale Biscuit that he is capable of keeping this bargain (although his acquisition last year of Nabisco's biscuit interests has been digested much more quickly).

The irony is that France's state sector, which tended in the past to show a breathtaking nonchalance about the profitability of its investments, is now perhaps more concerned about financial returns than the private sector.

Chairmen of French state-owned companies are appointed for three-year terms. These days, the best way of ensuring that your appointment is renewed – whatever your political friendships – is to produce profits. One case in point is Mr Jean-René Fourtou – appointed by the right-wing government of Mr Jacques Chirac to head the Rhone-Poulenc chemicals group but retained when the socialists returned to power in 1988.

As far as the private sector is concerned, however, taking the long view and concentrating on size can have its disadvantages, especially given the uncertainties surrounding economic growth in the industrialised world.

It sometimes means that companies pay too much for targets they know too little about – a charge levelled at Saint-Gobain in the case of Norton.

It may mean that they are stretching their home-grown management resources too thinly. The ability of French corporations to work successfully with foreign managements in large-scale ventures remains unproven. Some critics point to a destructive tendency to try and impose French management values on foreign acquisitions which have flourished independently under a quite different management culture.

In some cases, the quest for size has also been pursued almost at the expense of a clearly-focused business strategy. "The industrial logic of many of these foreign takeovers isn't always very clear. There is a naive search for scale," complains one French management consultant.

"The dominant reasons given for acquisitions are always strategic size and market share. It is rare that anyone talks about shareholder value," comments another consultant.

Take, for example, the FFr10bn purchase of a controlling stake in West Germany's second largest insurance company, Colonia, by the Victoire insurance group last summer. This may yet turn out to have been a stroke of genius, but it cannot seriously be maintained that Mr Jean-Marc Vernes, Victoire's then head, had more than a hazy idea of what exactly he was buying.

"The French are bad negotiators in takeover bids; they arrive on the scene too late and they pay too much," says a Paris banker.

The performance of foreign acquisitions under French management has been distinctly mixed. There have been resounding successes such as the purchase of Big 3 in the US by Air Liquide, the industrial gases group. At the other extreme, some companies are already suffering for having paid too much for their prey: last year, the state-controlled oil group Elf-Aquitaine took a FFr3bn write-off on its purchase of Texasgulf, the US phosphates company. Clearly, Texasgulf was too expensive.

Saint-Gobain, however, cannot be accused of rushing in to buy Norton without doing its homework properly. It is believed to have been studying the company for eight years. And with Mr Felix Rohatyn of Lazard Freres, one of New York's most experienced dealmakers, as its main adviser in the US, it can scarcely be said to lack negotiating talent.

By stepping into the middle of a takeover battle, Saint-Gobain is paying what Mr Jean-Louis Beffa, the company's chairman, describes as a "full value" price. "I would never have launched an unfriendly bid," he said after the Norton announcement.

In fact, with a few exceptions such as Institut Mérieux's purchase of Connaught BioSciences in Canada, recent French acquisitions in North America have all been friendly. Paris investment bankers argue that it is perfectly reasonable for a friendly bidder to pay a premium – as Seagram, the Canadian drinks group, did in the opposite direction, in its battle with Grand Metropolitan of the UK for control of the Martell cognac company.

"With a friendly takeover, it is legitimate to pay more, because you can extract the advantages from the merger much more quickly," says one merchant banker. Maybe so, but French companies are in a unique position to afford such judgments.

Vive la différence

The British have a somewhat different attitude from the French towards earnings dilution – markedly so in the case of BTR, writes Tony Jackson. "Thus far," says Sir Owen Green, BTR's chairman, "we have never done a single acquisition that involved any dilution of earnings per share, even in year one."

The BTR approach to prices paid for acquisitions is ruthlessly financial. In essence, it involves projecting the target's cash flow, including working capital, investment and so forth, and calculating the payback period. On a pre-tax basis, the typical acquisition would pay for itself within four years.

According to a BTR executive, there is a strategic purpose behind this discipline. "The reason we keep within the guidelines is that it's very necessary to keep refreshing your cash purse. That enables you every three or four years to move on perhaps to a new technology, or even a new thrust for the business."

This could perhaps be pointed to as an instance of the short-termism supposedly endemic in the Anglo-Saxon business culture. The snag is that in BTR's case, it produces the goods.

By any reckoning, BTR's financial performance over the past decade has been superior to Saint Gobain's. Saint Gobain's earnings in the period have grown by a factor of five, BTR's by a factor of 15. Saint Gobain's average net return on sales has been 2.4 per cent, BTR's 8.1 per cent. Saint Gobain's return on shareholders' funds in the latest comparable year was 21 per cent, BTR's 36 per cent. And so on.

Sir Owen is politely suspicious about the thinking that allows a company such as Saint Gobain to pay such prices. "Through the City or elsewhere, we don't have the kind of support which I suspect the French have. And it's interesting that the French Government has a stake in Saint Gobain. I'm sure there's a geopolitical aspect to French buying programmes, otherwise I don't see how they can make the sums work."

OBSERVER

Intellectual banker

■ Jacques Attali, 46-year-old *special adviser to French President* François Mitterrand, has long been a strong favourite to become the president of the new multinational bank for helping eastern Europe, the European Bank for Reconstruction and Development.

He dreamed up the idea of a new bank for eastern Europe; he persuaded the French Government to promote it, and he has chaired the international negotiations to settle its statutes and terms of reference. By rights, the EBRD is his brainchild.

But his candidacy has not been trouble-free, if only because France is already excessively favoured in the top international jobs. At present, there is a Frenchman who is the President of the European Commission (Jacques Delors), there is another Frenchman who is the Secretary General of the OECD (Jean-Claude Paye), there is a third Frenchman who is Managing Director of the IMF in Washington (Michel Camdessus), and there is a Frenchwoman who is the Secretary General of the Council of Europe (Catherine Lalumière).

Moreover, when France succeeded in getting Mr Michel Camdessus appointed IMF Managing Director in 1987, whom did he defeat? Mr Onno Ruding of the Netherlands. It looked as though it might be difficult for other countries to accept another French victory at the expense of the same Dutchman.

Mr Attali has abundant claims to the brand of intellectual brilliance which is so admired in France. He has been special economic adviser at the Elysée ever since President Mitterrand was first elected in 1981. In addition, he is a remarkably prolific author, with 14 books published in the past 17 years, mainly solemn intellectual economic or social science treatises, and a novel in 1989 which won a *Grand Prix du Roman*. However, a biography about the late Sir Siegmund Warburg, was less well received.

It has to be said that not everybody is France is an unqualified admirer of Mr Attali, however. In the recent biography of President Mitterrand by Franz-Olivier Giesbert, Attali is depicted as an anxious and obsequious courtier, ever watchful on the comings and goings in the President's outer office. Giesbert also blames him, together with Laurent Fabius, a former French Socialist Prime Minister, for having persuaded President Mitterrand to undertake the disastrous French reflation of 1981-82. It is not a record which will endear him to every international banker.

Irish problem

■ Ireland is gearing itself up for something much more important than its EC Presidency and Dublin summits. It goes to Italy next month to compete in the finals of the football world cup, the first time the country has gone so far in the competition. But there are a few problems.

The Irish have been drawn in the same group as England and the Netherlands, whose supporters are not exactly known for their gentlemanly behaviour. The Irish team has still not succeeded in finding a hotel. The police on Sardinia, where the first matches are being played, say the one the Irish picked initially is too close for comfort to the English team's accommodation. Then there is the question of team anthems. In deference to their hosts the Irish supporters boom out "Que sera, sera, whatever will be, will be . . . We're off to Italy" . . . But the Dutch are obviously out to confuse the Irish with their team song. It's

"You've given your occupation as 'piling in'."

entitled "Hand in hand, supporting Orange", and is sung to the tune of the very Irish "Danny Boy".

Reunion

■ EC commissioners will look for any excuse to spend time in Brussels, rather like that breed of old boy who can't keep away from his old school. An honourable exception is Lord Cockfield, who returned to Brussels on Monday night for the first time since his departure as Internal Market Commissioner almost 18 months ago.

The occasion – a dinner in his honour given by KPMG, for whom he is a consultant and special adviser on European affairs – provided an opportunity to warn business not to take progress in the single market for granted, and to urge EC politicians to "aim high" in their negotiations with eastern Europe and the countries of the European Free Trade Association.

Characteristically he also had some fun at the expense of Mrs Thatcher, suggesting that the effect of her famous Bruges speech was to push political union to the centre of the Community agenda. He said he fully agreed with the *British Prime Minister's desire* to achieve a definition of this idea, before adding after a suitably dramatic pause:" Mrs Thatcher wants to define it, to frustrate it. And I want to define it, to achieve it".

Belly up

■ My friends in Hollywood tell me that some of the biggest box office dollars these days are being generated by turtles, the walking and talking celluloid variety that is. Some six weeks after its release – *Teenage Mutant Ninja* – the story of four super-hero turtles who were dipped into radioactive glue and transformed into crime fighters – has grossed a startling $104.8m (£62.7m).

The size of the revenues suggests that this kiddie story, featuring turtle-heroes with names such as Michaelangelo and Donatello, is attracting a fair number of grown up kids as well. The turtle saga is also giving a big boost to New Line Cinema, a small New York production house that is hoping to expand its film-making activities in Europe. Whether European audiences will be swept up in turtle fever quite as much as the Americans, is, of course, another matter.

Chopsticks

■ For readers in Asia irked by the continued use of the colonial term "Far East", a solution may at last be on hand. Until now, alternatives such as "east Asia" or "north east Asia" have either been pedestrian, or inaccurate, but one frustrated reader has at last offered an accurate and evocative alternative – the "Chopstick Belt."

William Hall

A case of vertigo

John Plender looks at a deep structural fault in the global banking system

The longest post-war economic recovery ought to have provided the perfect backdrop for banks across the world to rebuild their profitability and capital after the rigours of the Third World debt crisis. Why, then, do they now confront the 1990s with a whole raft of new problems? Given the key role of the banking system in monetary policy, this question is of overwhelming importance for economic management. Yet despite clear evidence of a structural fault in large parts of the global financial system it features surprisingly little on the wider policy agenda.

The sheer relentlessness with which bad news has been emerging from the banking sector suggests that the omission will be remedied before long. The catalogue of accidents so far this year ranges from the ever-mounting bill for the rescue of the US savings and loans (S & Ls), through a global rash of bad and doubtful debts in real estate and leveraged transactions, to the problems of individual institutions such as Britain's Midland Bank, which has suffered from an ill-judged speculative bet on falling interest rates.

Clearly there is a cyclical element in all this. But that cannot explain the persistent appetite that bankers have shown over the past decade for obviously poor risks. Indeed, the outsider could be forgiven for thinking that the banking sector is an accident perpetually in search of somewhere else to happen. Nor is the impression entirely without foundation. The bankers are, in fact, victims of partial deregulation, whereby the lending side of the bank balance sheet in many countries has been opened up by liberalisation to a ferocious competitive discipline, while scarcely any discipline exists on the liabilities side at all.

First, consider the laxer side of the equation by looking at a little history. In the US banking system, interest rates used to provide an effective instrument of monetary control because lending was done at fixed rates. If the banks' cost of funds rose in response to monetary tightening, the profitability of their existing loan book dwindled, while the rate they charged new loan customers was high enough to deter new business. In Britain, where variable rate overdrafts were the norm, the authorities depended more heavily on administrative controls to restrain credit. In a fixed exchange-rate system buttressed by exchange controls, the credit creation process tended to be self-correcting. When the central bank was forced to defend a currency that was weakening in response to lax monetary conditions, the banks' funding dried up.

Today the Bretton Woods fixed exchange-rate system is long gone. The Americans have floating rates on both sides of the balance sheet and the British have abandoned credit controls. Banks no longer feel immediate pain when interest rates change because the burden has been shifted onto the customers. The central bankers are also more prone since the collapse of Bretton Woods to provide liquidity to pre-empt shocks in credit markets. This is one of several factors, well summarised in a recent essay by Mr Zvi Schloss, a former chief executive of the UK subsidiary of Bank Leumi Le-Israel*, that have progressively weakened the link between the granting of credit and the creation of pressures needed for the repayment of interest and principle.

By definition, the most profitable opportunities in banking will tend to be high-risk propositions which depend on future refinancing, while sound self-liquidating credit is likely to be low-risk, low-reward. Hence, in a deregulated market, the rapid growth in lending based on the assumption of continuous refinancing, whether in property, the Third World or the leveraged buy-outs that have helped generate the US corporate debt mountain. The temptations are greatly increased by the widespread use of sophisticated forms of insurance such as swaps, caps, futures and options. Much recent property lending in Britain has even been directly underwritten by insurance companies.

Yet the risk in the system as a whole increases because of moral hazard – the inducement to behave carelessly when insured by someone else. The result of all this is a vicious circle in which the demand for credit increases because repayment terms are perceived to be less onerous. More lending becomes insensitive to rising interest rates, while good borrowers are penalised because rates are higher than they would otherwise be. Bank profitability becomes subject to more a more volatile boom and bust cycle.

In a fully deregulated market the depositors themselves would provide a discipline against the resulting build-up of unsound debt because fear of a banking failure would cause deposits to be withheld or withdrawn. Yet deposit insurance removes the need for people to ask why a bank was offering above-average interest rates. So, too, does the biggest form of insurance conducive to moral hazard, the central banks' role as lenders of last resort. Large and even not so large banks are no longer allowed to go bust; and banking supervision has been made more difficult because of the international diversification of bank loans. Nor does the ownership structure provide any real discipline – witness the way in which Midland continues to stagger from one crisis to another.

The result of all this is that risk gravitates naturally to those parts of the financial system that are heavily insured; and a compulsion towards imprudent lending has been firmly implanted into the system. Capital adequacy requirements, the chief weapon in the armoury of banking supervisors, offer no real solution. If anything, they encourage the 'double or quits' mentality of the banker who tries to grow his way out of trouble.

Small wonder that the countries with the most sophisticated, liberal financial systems have fallen prey to excess monetary expansion. The creation of money, an important public good, has been infected by moral hazard. And because the authorities both supply funds to keep the system afloat while simultaneously raising interest rates to cope with excess money and credit, they have created the perfect conditions for stagflation.

Diagnosis is easier than cure. Full deregulation of the deposit side of the banks' balance sheet, which would reintroduce discipline at high cost to small, financially unsophisticated depositors, is politically unthinkable. A more obvious half-way house remedy, which would help prevent further trouble in the S & Ls for example, would be to reduce deposit insurance cover below 100 per cent and to limit insurance to individual depositors instead of individual accounts. Alternatively, since this insurance amounts to a subsidy for the banks, there is a powerful case for taxing the bankers for the privilege through reserve requirements or other forms of tax. This would have the beneficial effect of making the insured part of the system less attractive to depositors, so reducing its size and importance. Yet there is opposition at the highest level in the US Treasury and elsewhere to such changes while confidence in the S & Ls remains fragile.

On the asset side of the banks' balance sheet there are still some self-correcting elements at work. The recent review and downgrading by Moody's and Standard and Poor's respectively of the debt of America's largest bank, Citicorp, is symptomatic of a tougher climate among the rating agencies after their earlier failures to detect trouble in time. A new toughness is also apparent on the part of US bank examiners. Taken together with other blows to investors' confidence, such as the collapse of the junk bond market and worries about reduced participation of Japanese institutions at the US Treasury bond auctions, fears have been expressed that a downswing in the credit cycle in the US, and perhaps also in Japan, where bank ratios have been squeezed by collapsing asset values, could lead to a credit crunch after all.

A pause, at least, is a possibility. And a credit crunch, although it would carry a short-term cost in terms of slower growth today, would provide a non-inflationary means of writing down debt, so paving the way for sounder growth tomorrow. But the verdict of Professor Benjamin Friedman, in a report published last week by the central bankers' own think tank, the Group of 30, does not rate the chances very high.# The present debt levels in the US are, he concludes, more likely to lead to rapid price inflation than to financial crisis.

Lending strength to his argument is the enormously powerful competitive impetus that is now entrenched in the liberalised global banking market. For every repentant banker bent on shrinking his balance sheet, there may well be another one – quite possibly foreign – quoting St Augustine's plea for virtue, but not quite yet.

* *Variable Exchange Rates and the Quality of Credit: The Amex Bank Review Prize Essays, Oxford University Press, 1989.* # *Implications of Increasing Corporate Indebtedness for Monetary Policy – Group of Thirty, 32 St Mary at Hill, London.*

Cleaning up the nuclear debate

By Colin Robinson

LAST November the Government accepted that existing nuclear power stations could not be privatised and that, for the time being, there should be no nuclear building after Sizewell B. At the same time Mr John Wakeham, the Energy Secretary, announced a review of nuclear power policy in the mid-1990s.

Past reviews of nuclear policy have been dominated by nuclear enthusiasts. Indeed, the nationalised structure of the electricity supply industry (esi) gave a virtual monopoly of information about nuclear costs to a few people who, in turn, provided governments with the benefit of every doubt to nuclear power. As a result, the industry has a history of more than 30 years of over-optimistic cost forecasts. In addition, the esi approached privatisation burdened with a collection of unsaleable nuclear power stations.

To avoid repeating disastrous decisions of the past, there needs to be clearer thinking about the case for supporting nuclear power and a more open review procedure.

Three reasons for protection are embedded in the rather vague pro-nuclear case which is generally made.

First, it is claimed that forcing electricity distributors to take more nuclear power increases diversity and hence security of energy supply. Diversity is certainly desirable but this form of coercion seems likely to reduce it.

Although the new electricity supply regime is not as liberal as it should be, at least it should allow distributors much freer choice of fuels.

Second, it is argued that investing in nuclear power protects against long-run increases in the price of imported fossil fuels. But it is very uncertain whether such increases will occur. Nor is there any evidence that governments are better price predictors than fuel markets so that intervention will improve on the market outcome.

A more tenable argument is that nuclear investment is needed on insurance grounds in case fossil fuel prices rise sharply. But estimating the premium worth paying would be largely guesswork which would risk inflicting on society costs which need not be incurred so early, if at all.

Third, nuclear investment is sometimes seen as a means of mitigating the adverse environmental consequences of fossil fuel combustion, especially the greenhouse effect.

However, investing in nuclear power seems a particularly costly option of reducing the greenhouse effect . . . if indeed there is a solution. It is improbable anyway, given public opinion, that any likely nuclear programme would be large enough to make a significant difference to the build-up of greenhouse gases.

Of these points, only the insurance premium case has any substance. But even that is fraught with difficulties in implementation. Moreover, there are external costs of nuclear power which parallel most of the supposed benefits.

Construction delays and operating problems have resulted in insecure supplies. History suggests that nuclear-generating costs relative to those of fossil fuels may unexpectedly rise, particularly on account of "back-end" costs. There are the health costs of "routine" radiation and, of course, the cost of accidents – not only in reactors but in processing, transportation and waste storage.

On balance, far from the case that nuclear fission power, using present technologies, deserves support from the state, it may be that markets should be restrained from investing as much in nuclear power as they would wish.

Yet a danger in the proposed review is that it may begin from the preconception that nuclear power should be supported by the state, as it always has been - a preconception which will not be challenged if the review is conducted behind closed doors (like past nuclear reviews) by the Department of Energy, the Atomic Energy Authority and the two state nuclear companies.

Keeping nuclear stations in the public sector, necessary though it was, has preserved the information monopoly whose members have a powerful incentive to persuade government to embark on another civil nuclear programme.

Moreover, the state nuclear companies will tend to over-invest simply because they will presumably evaluate investments at the relatively low public sector discount rate – even though nuclear stations are comparatively risky investments.

In the long term, the answer is to undermine the nuclear information monopoly and to ensure there is a genuinely privatised and competitive market for electricity and for generation fuels.

The best hope for a mid-1990s review is for a degree of openness never seen before in nuclear decision-making. Instead of a White Paper or some other pronouncement handing down decisions already made, a period of debate, probably best started by a Green Paper, is required.

The debate should start from a neutral base, asking whether there are special features of nuclear power which mean that its development should be either promoted or restrained by the state. When a decision is eventually made, it requires proper explanation, not vague statements that nuclear power is needed on security, environmental or other grounds.

That may be asking too much. Perhaps the self-interest of governments of any party will always make them wish to exercise their "judgment" without explaining themselves.

On the other hand, they may remember all those misleading statements about nuclear power from the past and, in particular, the political embarrassment of listening only to nuclear enthusiasts.

An example of this happened as flotation of electricity supply neared. There was a last-minute discovery that costs were much higher than forecast and that financial markets perceived considerable risk investing in a company with nuclear power stations. A more open debate could have avoided this.

The author is Professor of Economics at the University of Surrey.

LETTERS

User-friendly electoral system needed

From Mary Georghiou.

Sir, Whatever the eventual interpretation of the results of the local elections, ("Not everyone is ready for Labour," May 5) and whether or not Iain Macleod was right that people vote from the wallet (or purse?), two things seem to be clear: there has been no return to two-party politics, and national opinion polls, when asking people who they want to form the next government, do not necessarily translate into results on the day.

The reason why it takes psephologists so much time and so many column inches to explain results is that elections actually do not tell us why people are voting or what they want from government, local or otherwise.

I am beginning to wonder what the point is of elections when politicians can interpret them to claim support, at least in parts of the country, for their own view point. It provides them with justification for not listening to opposing opinions, which is probably where most politics goes wrong.

The present electoral system could be the culprit. Many people think first past the post voting is simple because we are only asked to use one X to register all our feelings. With a voter-friendly system designed specially to fit the British political scene it might be possible to show our honest support of a local candidate, even one with no chance.

We could indicate a preference between the two most likely contenders and take part in choosing our government wherever we lived. It might be more complicated than X-voting which predates adult literacy, but it has not defeated citizens elsewhere in the new Europe. We did eventually adopt decimalisation!

The Labour Party is heading for a future as a European-minded, European-style party. It is considering other electoral systems for devolved and regional assemblies, for the reformed House of Lords and for elections for Europe. But it still looks as if it wants untrammelled Westminster power.

Eleven years of Mrs Thatcher as Prime Minister has cured people of belief in minority party monopoly government.

Most of us in the Party believe with Mr Neil Kinnock that "a primary purpose of being elected to power by the people is to get as much power as possible back to the people." So why do we cling on so firmly to the present electoral system?

Without altering its collective mind about elections to the House of Commons, the Labour Party can promise now that when in government there will be a Speaker's Constitutional Conference or Commission to discuss the many democratic and constitutional changes we are already proposing.

Then when people say why they should trust the Labour Party we will be able to reply: "Trust us, we are not like the present Government; we are going to listen and share power with people."

Mary Georghiou,
Labour Campaign for Electoral Reform,
Guildford, Surrey

Reality of EMS

From Mr R. E. Rowthorn and Mr M. R. Weale

Sir, The argument for Britain's membership of the exchange rate mechanism of the EMS now seems to be the same as that for "monetarism" a decade ago. We are assured that membership of the ERM *will affect workers' inflation*ary expectations and so allow a costless reduction in inflation and an actual reduction in interest rates.

This argument is based on the premise that wages are set with a view to expectations of future inflation rather than with the aim of compensating workers for past inflation. Such a premise might be convenient from the point of view of economic theorists but does not correspond closely with reality.

We now face the danger that the UK will join the ERM in the pious hope that this will work miracles. In fact the risk of devaluation makes it likely that interest rates will stay high, and one can be confident that an attempt to maintain a fixed parity against the D-mark at around today's levels will lead to a significant increase in the real exchange rate with consequences similar to those of a decade ago.

R. E. Rowthorn and M. R. Weale,
University of Cambridge,
Sidgwick Avenue,
Cambridge

End listing anachronism

From Mr Alan Diamond.

Sir, Is it not time for the Stock Exchange to amend its listing requirements so that quoted companies can no longer retain a listing for their "A" ordinary non-voting shares? This class of equity should now be enfranchised.

There are some 60 quoted companies that still have this unfair two-tier capital structure. Following the Government relinquishing its "Golden Shares" in Britoil and Jaguar, surely the time has come when this anachronism should be laid to rest. Also, by 1992 EC legislation will require London to comply with European listing requirements when "A" shares will not be permitted.

If London is deemed to be Europe's financial capital then quoted companies should be seen to have a level playing field. This would be particularly true since some Aquascutum ordinary shareholders recently complained about Renown's cash offer.

Alan Diamond,
20 York Terrace West,
Regent's Park, NW1

Title reflects true nature of job

From Mr. Richard Bullock

Sir, The ECIF has read with interest Della Bradshaw's report ("Quality game of follow the leader," May 3) on relations between Japanese electronic equipment makers and their suppliers. Her article covers both suppliers of components, and also those who undertake "board-stuffing" and other assembly operations under contract to OEMs.

With regard to the latter, she writes that the Japanese have abandoned the term *"sub-contract company."* Coincidentally, we have done the same. Thus, the name of the group we are jointly setting up with the Printed Circuit Interconnection Federation to cater for the needs of this rapidly expanding sector, Contract Electronics Manufacture (CEM), was adopted at the recent inaugural meeting attended by more than 30 members.

We believe that this title better reflects the significance of this activity which, as Della Bradshaw points out, offers OEMs very cost-effective manufacture and the highest quality standards. UK companies have a highly professional competence in CEM, and one of the priorities of CEM is to promote this capability both at home and abroad.

It has long been an important objective of the ECIF to encourage closer ties between our members' manufacturing components and their customers to their mutual benefit. Della Bradshaw quotes the case of a UK components supplier which apparently failed to recognise the importance of long-term relationships.

I am sure this is unusual. Too often, ECIF members seeking such relationships find their UK customers more interested in placing small orders to meet short-term needs.

This makes it difficult for components manufacturers to plan capacity rationally. This cannot be in the real interests of either OEMs or their suppliers: they are mutually interdependent, and neither can thrive in the long term without the other.

Richard Bullock
Electronic Components Industry Federation
Romano House, Strand, London WC2

Wrong picture

From Mr. Denis Filer.

Sir, Your report "Top-level vocation scheme nearer" (May 1) gave the impression that engineers are in favour of extending the National Council for Vocational Qualification scheme (NCVQ) to a new level five. This is not so.

The Engineering Council supports and works with the NCVQ in levels I-IV and indeed a joint statement by The Engineering Council and the NCVQ issued in November emphasised this support.

We believe The Engineering Council's existing arrangements cover the chartered engineer level and we see no need to impose a further level V requirement on top of an accepted and workable system.

Denis Filer,
The Engineering Council,
10 Maltravers Street,
London WC2

FINANCIAL TIMES
Wednesday May 9 1990

BONN SPLIT OVER GERMAN UNIFICATION

Kohl rejects Soviet compromise

By David Marsh in Bonn

MR HELMUT KOHL, the West German Chancellor, yesterday rejected the Soviet Union's weekend proposals on German unification, reflecting a split in the Bonn coalition over Germany's future political sovereignty.

Mr Kohl risked a clear rift with Moscow by saying it would be a "fatal development" to clear up the internal aspects of German unification without simultaneously deciding that a united Germany would remain in Nato.

Speaking to reporters after a meeting of conservative party deputies, Mr Kohl said he was sticking to the timetable of deciding by the autumn all questions relating to German unity. This would be in time for the planned summit of the Conference on Security and Cooperation in Europe at the end of the year, and allow all-German elections in 1991.

The surprise statement backed away sharply from the Chancellor's weekend welcome for the suggestions put by Mr Eduard Shevardnadze, the Soviet Foreign Minister, at Saturday's Bonn unity conference. Mr Shevardnadze advocated allowing German unity to go ahead before a firm decision on the future Germany's military status.

Mr Kohl's apparent U-turn reflects disagreement with Mr Hans-Dietrich Genscher, the Foreign Minister. Backed by the conservative parties in the centre-right coalition, Mr Kohl does not accept Mr Shevardnadze's suggestion of a post-unification transition period of several years of limited German sovereignty.

Officials at the Bonn Foreign Ministry called discord between Mr Kohl and Mr Genscher "more a matter of form than of content." But they said that the Chancellor's brusque rebuttal was likely to upset the harmony developed at the weekend meeting between the two German states and the four Second World War victors.

"Genscher had begun to water the tender plant of Soviet readiness to compromise, and now Kohl has taken a stick to it," commented one official.

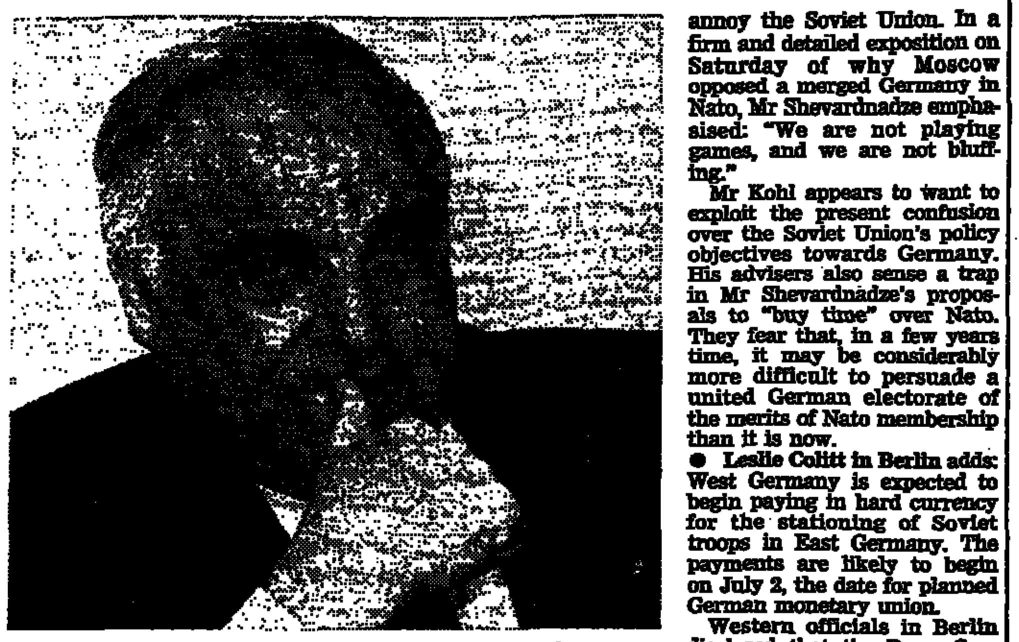
Mr Kohl yesterday repeated that the Soviet Union's refusal to accept a united Germany within Nato reflected Moscow's "poker" in negotiations. This remark seems calculated to annoy the Soviet Union. In a firm and detailed exposition on Saturday of why Moscow opposed a merged Germany in Nato, Mr Shevardnadze emphasised: "We are not playing games, and we are not bluffing."

Mr Kohl appears to want to exploit the present confusion over the Soviet Union's policy objectives towards Germany. His advisers also sense a trap in Mr Shevardnadze's proposals to "buy time" over Nato. They fear that, in a few years time, it may be considerably more difficult to persuade a united German electorate of the merits of Nato membership than it is now.

● Leslie Colitt in Berlin adds: West Germany is expected to begin paying in hard currency for the stationing of Soviet troops in East Germany. The payments are likely to begin on July 2, the date for planned German monetary union.

Western officials in Berlin disclosed that the Bonn Government will pay an average DM1,000 ($602) annually to each of the 35,000 Soviet officers in East Germany. The remaining 345,000 soldiers will be paid DM1 a day.

The remuneration of Soviet troops until now was part of a web of contractual and unwritten obligations by East Germany to the Soviet Union. Mr Kohl revealed months ago that Bonn would be willing to pay for the temporary upkeep of Soviet troops in East Germany.



Helmut Kohl: rift with Moscow over Nato membership

E Germany admits smuggling technology

By David Marsh in Bonn

EAST GERMANY has admitted that it broke western technology transfer rules to produce its own 1 megabit chips in the late 1980s.

Mr Wolfgang Biermann, former managing director of Carl Zeiss Jena, the East German electronics and optical combine, said production was made possible only by clandestine purchase of chip-making equipment from the west.

Mr Biermann told the East German Communist party newspaper Neues Deutschland that the purchases amounted to "circumventing" CoCom, the Paris-based western organisation which polices technology exchanges with the east.

"We knew which chips we wanted to produce and what was needed," he was quoted as saying. Some semiconductor production machinery was home-produced or imported from the Soviet Union, but other equipment was smuggled in from the west, with the producer's name erased, he said.

Mr Biermann, who now lives in West Germany, is wanted for questioning by East German state prosecutors, who suspect him of irregularities during his long period in charge of Zeiss.

Production of megabit chips, achieved in 1988 after several years of investment put officially at 14bn East German Marks, was hailed by the former leadership of Mr Erich Honecker as one of East Germany's proudest technological achievements. By lifting the veil on one secret behind the venture, Mr Biermann has confirmed both East Germany's technological dependence on the west and the vulnerability of the CoCom procedures.

Ironically, the prospect of reunification and free exchange of technology between the two Germanys has underlined the futility of the project. East German 1 megabit technology is outdated compared with advances made in West Germany.

European fighter contract goes to Ferranti

By Paul Betts and John Mason in London

A LONG-AWAITED contract for the European Fighter Aircraft's radar system, potentially worth £1bn-£2bn ($1.67bn-$3.34bn), has been awarded to a consortium led by Ferranti Defence Systems, recently acquired by General Electric Company of the UK.

Mr Tom King, UK Defence Secretary, said in the House of Commons yesterday that the deal was "a major milestone for British airborne radar technology."

Although there had been concerns about possible technical, commercial and financial risks in choosing the Ferranti ECR 90 radar system, Mr King told parliament that the four EFA partners – the UK, West Germany, Italy and Spain – had decided to select the British system.

Mr King did not specify the value of the project, which the defence industry has estimated at between £1bn and £2bn.

The contract is being awarded by Eurofighter, the EFA airframe contractor, to the Euroradar consortium led by GEC-Ferranti Defence Systems, which also includes Telefunken System Technik of West Germany, FIAR of Italy and Inisel of Spain.

He said the six-year development contract would be awarded on a fixed price basis. The development contract is expected to be worth about £300m, of which the UK share will be about a third.

He told MPs that 95 per cent of the UK work would be carried out at GEC-Ferranti's Edinburgh base.

Mr Martin O'Neill, the opposition Labour Party's spokesman on defence, said the decision would secure jobs in the industry well into the next century and development work would also have civilian applications.

Mr King said the takeover of the troubled Ferranti Defence Systems by GEC had been essential to the consortium's success. He said it was unlikely there would have been enough work in airborne radar to support two companies.

The deal ends a two-year political controversy over the choice of radar between Britain and West Germany, the two leading partners in the EFA project.

The political deadlock over the radar was broken in January but the award of the contract continued to be held up by disputes about indemnity terms should the radar fail to meet its targets.

These mainly involved terms for the UK to idemnify West Germany by up to DM200m ($120.48m) in the event of development problems.

However, Mr King was able to offer an indemnification package acceptable to the west German partner clearing the way for the signature of the radar development contract.

The new Ferranti ECR 90 system is based on the Blue Vixen radar being developed for the Royal Navy's Sea Harrier shipboard "jump-jet" multi-role fighter aircraft.

It is particularly designed for use over water, one of the vital requirements of the Royal Air Force.

West Germany had earlier campaigned for the AEG-led MSD 2000 radar based on the US Hughes APG-65 system. The West Germans argued that the development risks were far smaller with the MSD 2000, in which GEC Marconi had a stake.

Bonn was also worried by the financially viability of Ferranti following the ISC affair. But these concerns disappeared when Ferranti Defence Systems was acquired by GEC.

Rolls-Royce in deal to re-engine 727s

By Paul Betts, Aerospace Correspondent, in London

ROLLS-ROYCE has made its first significant breakthrough in the emerging market for re-engining older jet airliners with a $600m order to supply its Tay 650 engines for the entire Boeing 727-100 fleet of United Parcel Service, the US package freighter company.

The British aero-engine company said UPS would become the launch customer for a Boeing 727 engine replacement programme. The deal, including options, involves up to 280 engines for 80 aircraft.

Rolls-Royce has targeted the re-engining of older jets as a key market for its civil engine business. Noise and pollution regulations are forcing airlines to consider ways of upgrading their older fleets of jets to meet the new rules.

However, aero-engine manufacturers have adopted different approaches. While Rolls-Royce has opted for re-engining older aircraft with new engines, US manufacturers have proposed adapting older engines to the new noise standards with so-called "hush kits".

Rolls-Royce said the potential re-engining market could involve as many as 3,000 aircraft including Boeing 727-100 and 727-200 trijets as well as McDonnell Douglas DC9 and British BAC 1-11 twin jets over the next few years.

Although the International Civil Aircraft Organisation has yet to set a time limit for older aircraft to conform to the new noise limits known as "Stage 3", many airports in the US have already introduced their own curfews and regulations.

The significance of the UPS order was that the US carrier largely operates at night and is thus more immediately affected by the new noise regulations, Rolls-Royce said yesterday.

The UK group added that the advantages of replacing older engines included a 12 per cent fuel economy improvement, lower pollution levels, greater payload, increased range and lower maintenance costs.

BMW, the West German car manufacturer, will co-operate with Rolls-Royce in the Tay engine programme.

WORLDWIDE WEATHER

		Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	21	70	Dallas †	C	18	64	Madeira	F	18	64	Prague	F	21	70
Algiers	S	21	70	Dublin	R	12	54	Madrid	S	24	75	Reykjavik	S	8	46
Amsterdam	F	19	66	Dubrovnik	S	20	68	Majorca	S	20	68	Rhodes	S	20	68
Athens	S	23	73	Edinburgh	R	9	48	Malaga	F	21	70	Rio de Janeiro		–	–
Bahrain	S	29	84	Faro	S	21	70	Malta	F	19	66	Rome	S	19	66
Barcelona	S	19	66	Florence	F	23	73	Manchester	R	10	50	Salzburg	F	20	68
Belfast	C	10	50	Frankfurt	F	21	70	Melbourne	S	16	61	S'Francisco †	S	10	50
Belgrade	S	23	73	Geneva	T	18	64	Mexico City		–	–	Santiago		–	–
Berlin	F	27	81	Gibraltar	F	19	66	Miami †	F	25	77	Seoul	F	17	63
Biarritz	S	19	66	Glasgow	C	11	52	Milan	S	23	73	Singapore	F	32	90
Birmingham	F	14	57	Guernsey	F	13	55	Montreal †	F	7	45	Stockholm	S	17	63
Blackpool	C	9	48	Helsinki	S	11	52	Moscow	F	8	46	Strasbourg	F	22	72
Bombay	S	33	91	Hong Kong	C	28	82	Munich	T	19	66	Sydney	C	20	68
Bordeaux	F	21	70	Innsbruck	F	19	66	Nairobi		–	–	Tangier	F	22	72
Boulogne	F	13	55	Inverness	R	10	50	Naples	S	24	75	Tel Aviv	S	25	77
Bristol	S	15	59	Isle of Man	R	8	46	Nassau		–	–	Tenerife	F	23	73
Brussels	S	23	73	Istanbul	S	20	68	Newcastle	C	11	52	Tokyo	S	23	73
Buenos Aires		–	–	Jersey	C	15	59	New Delhi	S	34	93	Toronto †	S	8	46
Budapest	R	23	73	Johannesburg		–	–	New York †	S	14	57	Tunis	C	18	64
Cairo	S	27	81	Las Palmas	F	23	73	Nice	S	19	66	Valencia	S	22	72
Cape Town	S	23	73	Leeds	R	11	52	Nicosia	S	22	72	Venice	S	21	70
Cardiff	F	15	59	Lisbon	S	22	72	Oporto	S	22	72	Vienna	S	23	73
Chicago †	S	17	63	Locarno	S	23	73	Oslo	S	19	66	Warsaw	S	23	73
Cologne	S	21	70	London	C	16	61	Paris	S	21	70	Washington †	S	16	61
Copenhagen	S	22	72	Los Angeles †	C	16	61	Peking		–	–	Wellington	F	14	57
Corfu	S	22	72	Luxembourg	F	22	72	Perth	F	20	68	Zurich	S	20	68

C–Cloudy. Dr–Drizzle F–Fair. Fg–Fog. H–Hail. R–Rain. S–Sunny. Sl–Sleet. Sn–Snow. T–Thunder.
† Noon GMT temperatures

IMF links quota increase to arrears

Continued from Page 1
concession was not too significant.

"We are in a position to determine when negotiations get seriously engaged," he said.

Mr Michael Wilson, the Canadian Finance Minister, who chaired the Interim Committee, said the agreement was a package "to strengthen the role of the IMF as the central pillar of the international financial system."

All countries had made concessions, he said.

"Each country had to put a little water in its wine." Mr Pierre Beregovoy, the French Finance Minister, said it was a "balanced agreement" and a good compromise. France had been one of the coutries pushing for a larger quota increase.

According to Mr Camdessus, the quota increase will permit the Fund to help countries in economic difficulty at a time when the transition of eastern Europe to a market based economy is likely to increase the claims on its resources.

He pointed out that these countries were likely to face balance of payments problems as they dismantled protectionism and deregulated their economies.

The IMF also needed extra funds to help finance the debt and debt service reduction measures involved in Mr Brady's plan to help middle income debtor nations.

The planned conclusion of the Uruguay Round of trade liberalisation talks at the end of this year would be likely to increase demands on the Fund as nations adjusted to lower trade barriers.

Sub-saharan Africa would also require IMF support.

Before the meetings started, Mr Camdessus had warned that a quota increase as low as 50 per cent could force the Fund to increase its borrowing.

However, yesterday Mr Wilson said he saw no need for the IMF to borrow funds at this stage.

German exchanges warn UK on stock trading

By Richard Waters in London

THE SIMMERING row between Europe's stock exchanges over the creation of a single market for the shares of the continent's leading companies came to the boil again yesterday as German exchanges issued a direct challenge to London's International Stock Exchange.

Speaking at a conference at the London School of Economics, Mr Rüdiger von Rosen, executive vice chairman of the Federation of German Stock Exchanges, warned that the federation would "export" its dealing system for equities and bonds to Britain if London did not agree to co-operate fully in the development of the new Europe-wide stock market.

His warning is a retort to Mr Andrew Hugh Smith, chairman of the London exchange, who recently proposed a joint Anglo-German trading arrangement based on London's Seaq International quotation system.

The German response came the week before a meeting of European exchanges in Copenhagen to discuss the way forward for a joint exchange. They have agreed in principle to a system for disseminating share prices of leading European companies, known as the Pipe, but have yet to agree on the rules for a full trading system to be added to this.

Mr von Rosen said the German price quotation system, Ibis, had "the potential to become a stock exchange for the whole of Europe."

The German settlement system gave it an advantage over other markets, he said, while there were plans to extend the number of stock prices carried on Ibis and to introduce bond prices. It may also be developed into a full trading system.

"We are giving great consideration to whether or not there is, for instance, an interest in Ibis terminals in London," he said.

Ibis would have a long way to go to overturn London's dominance of cross-border share dealing.

According to the latest estimate, Seaq International has captured two-thirds of all cross-border share dealing since its inception five years ago.

Mr von Rosen said an alternative to competition was agreement between exchanges on a single European market which would benefit all users of the market.

Speaking at the same conference, Mr Hugh Smith agreed on the need for a central continent-wide market, although he did not comment on what form this should take or whether Seaq International should play a part in it.

Gorbachev calls for army reform

Continued from Page 1
parade on Revolution Day last year and several new items of equipment.

He has also shown his respect, or concern, for the military establishment by promoting Gen Dmitri Yazov, the Minister of Defence, to the rank of full Marshal. Marshal Yazov also admitted that the Red Army must undergo "radical military reform."

Today's parade past Marshal Yazov will include at least one vehicle which western defence observers say they have never seen before – an armoured personnel carrier for about 12 men. There will also be a BM-22 multi-barrel rocket launcher and a SAM-10 surface-to-air missile, neither of which have been on public display before.

At the same time there will be veteran equipment to celebrate the Soviet victory in the Second World War, including T-34 tanks and the so-called Stalin Organ multiple rocket-launcher.

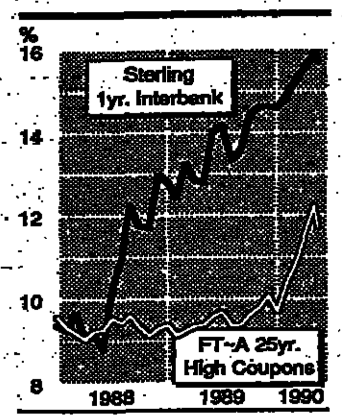
THE LEX COLUMN

Looking to bonds for a lead

The surprising strength of the London equity market in the past few days naturally raises the question of whether this is a turning point. But the FT-SE 100 has risen by as much twice this year already, only to fall back further each time. The immediate cause of the latest rise is the behaviour of the bond markets. But though gilts rose strongly last Friday on the local government election results, they were already falling back yesterday. And while US Treasuries responded to unexpectedly weak employment figures on Friday, they are now in the midst of the confusing three-day ritual of the quarterly funding.

Although the US market seems to be reconciling itself to the notion that the Japanese will not be turning up in their former strength, the idea is gaining currency that domestic US savings are now available to make up the difference. What this will mean for the dollar is not wholly clear. Nor indeed is it clear that American savings can make up for the absence – possibly over several years – of Japanese lenders whose US Treasury holdings now total in the region of $300bn.

Beyond that, the outlook for both US and UK bonds still rests on perceptions of real yields. The US employment figures put paid to expectations of Fed tightening; but they also drew attention to real yields of close to 5 per cent. Similarly, if the UK market can convince itself that this Friday's inflation figure – whether 10 per cent or not – represents a peak, it might be argued that gilts are oversold. But for both markets, what still matters most is the global context; and in a world dominated by the withholding of Japanese savings and Eastern Europe's demand for funds, it is too early to call the turn.



German shares

If the Bundesbank genuinely wants Germany to house Europe's leading financial markets, it will need to change the way some senior bankers think about the rights of shareholders. A case in point seems to be Deutsche Bank's new chief executive. Edifying though it was yesterday to hear Mr Kopper advocate harsher laws against insider trading, in the same breath he was defending Deutsche Bank's rule limiting shareholders' voting rights to 5 per cent, regardless of the size of their stake. This kind of double-think has to stop if German quoted companies want shareholders from abroad to put up with the endless rights issues they can expect in the 1990s.

Granted, it is too much to ask for German companies to allow a fully-fledged free market in corporate control. The network of bank shareholdings in industry is too deeply rooted in Germany, going back to the 1870s when the likes of Deutsche Bank became active partners of German manufacturers. According to Baring Securities, more than 58 per cent of a sample of 120 leading German companies are protected from takeover by friendly shareholders with blocking stakes.

But that is all the more reason to see voting right limitations, like Deutsche's 5 per cent rule, as a pointless device which could easily be dispensed with. In Deutsche's own financial sector, Commerzbank places no such limitation on voting rights; neither does Allianz. It is hard to see why Deutsche Bank has to be different.

Hongkong Bank

It is a tall order to sound more down-in-the-mouth than Sir Kit McMahon did at Midland Bank's agm. But Midland's likely merger partner – Hongkong and Shanghai – was doing its best at its own shareholders' meeting yesterday. Beside Capel's convertible capers, there are the small matters of a still-dodgy real estate loan book at its Marine Midland subsidiary in the US, more losses in Australia, and gloomy prognostications about global stagflation from the chairman.

One's overall impression is that Midland's current embarrassments may not have done much to reduce its bargaining power in talks with the Hongkong Bank, because the latter has so many headaches of its own. True, its Hongkong retail operations are still powering ahead, as is British Bank of the Middle East. But, ironically, this has only increased its Asia/Pacific assets from less than 40 per cent of the group total in 1986, to 48.2 per cent now, underlining its need to spread its risk more widely.

Sketchley

Recent announcements from Sketchley have had the elements of Whitehall farce, with bidders entering and exiting and the directors in the spotlight, trousers round their ankles. Some investors may have found the humour rather too black for their tastes. The same board that confidently rejected offers from Godfrey Davis and Compass has now revealed that even its lamentable profits forecast, which represented a 65 per cent decline on the previous year, was too high. The final dividend is also in question.

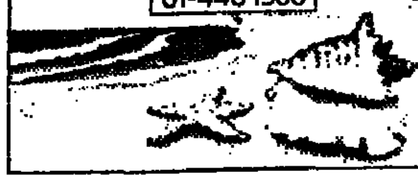
Two outside managers with unspecified plans for the company have been installed in preference to the bidders. The previous executive directors are departing with only their three year contracts to console them. The predators have avoided the poisoned chalice; nor have Sketchley's advisers suffered, judging by the £1.2m of costs incurred during the two week offer from Godfrey Davis. Only the shareholders have been taken to the cleaners.

James Capel

The UK financial sector finds ever more ingenious ways of losing money. James Capel, which largely resisted the temptations to move into UK equity market making, has lost more than £7m in three months on convertibles. In theory, higher convertible yields ought to have restricted the downside for Capel: in theory, having the top-rated analysts in the sector ought to have been an advantage. But yields are low and expertise hard to acquire in the Korean convertible market, which has been hit by oversupply and a stock market plunge in recent months.

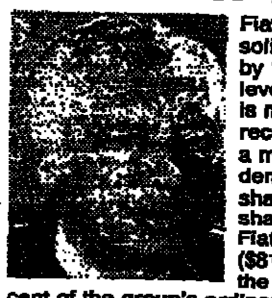
Making markets in euroconvertibles issued by UK companies is a reasonable service for Capel to offer clients. But whether Capel needed to act as principal in Australian and Korean securities is another question. Safeguarding its excellent reputation for research, currently threatened by staff departures, was a far greater priority.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday May 9 1990



INSIDE

Fiat — record profits but slower growth



Fiat has raised its consolidated net earnings by 10% to a record level. The rise, however, is more modest than in recent years because of a much heavier tax burden. At last June's shareholders meeting, shareholders authorised Fiat to spend L1,000bn ($816m) on buying back the equivalent of 5 per cent of the group's ordinary, preferred and savings stock. Yesterday, the company, headed by Giovanni Agnelli (above), revealed that this programme had been more than half completed. Page 23

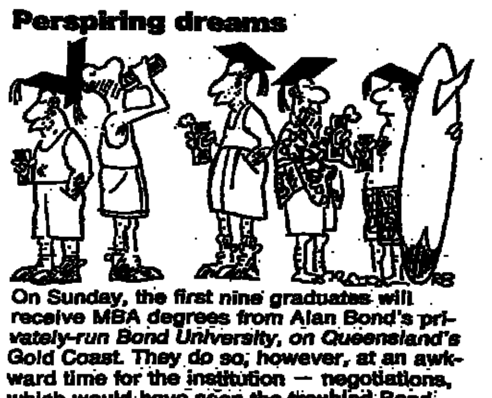
Buying shares by the book

Henry Cooke Lumsden's corporate finance department should have been thoroughly familiar with the UK's "substantial acquisition" rules when it bought shares in Automagic Holdings, the USM-quoted shoe repairer and key cutter during March and April. So says the Takeover Panel which has criticised the Manchester broker for breaching the rules when it acquired shares on behalf of Timpson, an unquoted shoe repair business. Timpson must now sell a 3.3 per cent stake in Automagic before June 1. Page 33

Israeli groups climb steeply

Two top state-owned Israeli companies, both slated for privatisation, sharply improved their profits in 1989. Israel Chemicals lifted net profit by 83 per cent while El Al advanced 30%. Moves to privatise both companies have been hampered by political delays. The sale of 50 per cent of ICL to a foreign investor has been blocked by objections in parliament to the sale abroad of what is regarded as a key strategic company. El Al meanwhile remains in official receivership imposed in 1982 when it was beset by labour problems and debt. Page 24

Perspiring dreams



On Sunday, the first nine graduates will receive MBA degrees from Alan Bond's privately-run Bond University, on Queensland's Gold Coast. They do so, however, at an awkward time for the institution — negotiations, which would have seen the troubled Bond Brewing Investments selling its 50 per cent stake in the university to its co-founder EIE International, a Japanese property and leisure consortium, have collapsed. Page 27

Contrasting fortunes

Mexico's stock market has been performing with remarkable consistency. Last week, it rose 4.72 — just behind the top performer, West Germany. At the other end of the spectrum, the figures for Ireland this year suggest a picture of gently accelerating, and consistent decline. Bill Cochrane looks at contrasting fortunes among the world's stock markets. Back Page

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)			[illegible]		
Rises			Lockheed	[illegible]	+ [illegible]
Bremer Vulkan	700	+ 27	Texaco	[illegible]	+ [illegible]
Hapag Lloyd	400	+ 15	Falls		
Rosenthal	388	+ 5	Landmark Land	[illegible]	− [illegible]
Falls			[illegible]	[illegible]	− [illegible]
[illegible]	602	− 14	**TOKYO (Yen)**		
Daimler-Benz	875	− 17	Rises		
[illegible]	[illegible]	− 19	[illegible]	1210	+ 228
Kaufhof	594	− 13	[illegible]	1400	+ 230
Mannesmann	720	− 15	[illegible]	1590	+ 200
Volkswagen	600	− 10	Falls		
NEW YORK ($)			[illegible]	1760	− 100
Rises			Olympic	1020	− 80
Binder Int	22¾	+ ¼	Toda Kogyo	1370	− 80

New York prices at 12.30pm. Paris Closed.

LONDON (Pence)					
Rises			Jackson Group	118	+ 10
Brent Walker	300	+ 23	LASMO	375	+ 9
[illegible]	577	+ 7	Pentland "A"	118	+ 8
Cable & Wire	494	+ 8	[illegible]	118	+ 11
[illegible]	128	+ 6	Whitbread	379	+ 10
Sun Alliance	1043	+ 12	Falls		
[illegible]	785½	+ 19½	Cargo Control	55	− 5
GUS "A"	967	+ 37	Midsummer Leis	118	− 2
[illegible]	183	+ 10			

Ericsson profits up 93% to SKr1.18bn

By John Burton in Stockholm

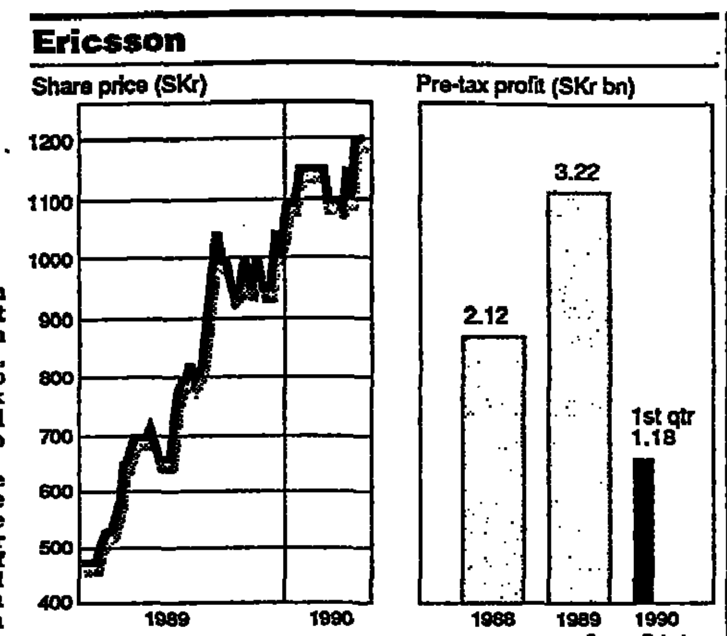
ERICSSON, the Swedish telecommunications equipment group, announced yesterday first-quarter pre-tax profits up by 93 per cent from SKr609m ($99m) to SKr1.18bn. The improvement was mainly due to the performance of the group's public communications and radio communications businesses.

Analysts had predicted a 30 per cent gain. There has been heavy trading of Ericsson shares in recent days because of speculation that profits would be higher than expected. The free "B" shares closed SKr9 lower yesterday at SKr975 after rising SKr27 on Monday. Ericsson predicted pre-tax profits for the full year would climb by slightly more than 25 per cent to at least SKr4.6bn from SKr3.7bn in 1989. Sales in the first three months rose by 30 per cent to SKr10.4bn, while orders increased 31 per cent to SKr12.2bn.

Ericsson did not specify income for any of its divisions, but said radio communications reported the biggest sales advance, soaring by 109 per cent to SKr2.7bn. This partly reflected Ericsson's alliance with General Electric of the US in the mobile phone market.

Public telecommunication sales, which rose by 27 per cent to SKr5.35bn, benefited from strong market demand in Spain, Australia and Italy. Ericsson also signed a SKr6bn framework agreement to supply AXE digital switching equipment to Mexico over the next five years.

Defence systems remains the company's most troublesome division and continues to make losses. Sales declined by 13 per cent to SKr463m as the result of divestment of the command and control system operations into a joint venture company with Nobel Industries.



William Purves: blamed losses in convertible market making in the UK

James Capel incurs loss of £7m

By Richard Waters, in London

JAMES CAPEL'S first quarter loss casts doubts on the ability of this subsidiary of Hongkong Bank to stay in profit after edging into the black during 1989.

The losses at the London stockbroker are understood to have been sustained on a range of Euroconvertibles (those issued outside the UK), including Korean and Australian securities as well as some issued by UK companies.

The £7m is only a quarter or a fifth of the loss Capel is believed to have sustained on convertibles in the wake of the stock market crash in 1987, which cast it into a £14m ($22m) loss for the year. However, the repercussions have been far more severe.

Senior Capel executives say the losses played a part in the departures of Mr Peter Quinnen, the firm's former chairman and chief executive, Mr Barry Collins, head of market making in convertibles, and a convertibles team which defected to rivals Robert Fleming earlier this year.

Mr Quinnen left after repeated disagreements with Hongbank's chairman, Mr William Purves, and the bank's refusal to consider selling the broker. However, one Capel executive yesterday described the losses on convertibles as "the straw that broke the bank's back."

The decision to announce the losses after the first quarter, rather than at the interim stage, suggests a desire to pin the mistake to the departing managers. The scale of the losses are said to have "shocked" the investment firm's board when they became known — although the board had agreed the limits imposed on Mr Collins, and these had not been breached. According to one executive, the mistake has confirmed the view that "risk-taking has not been a Capel strength."

Overseas units still trouble HK Banking

By John Elliott in Hong Kong and Alan Friedman in New York

THE HONGKONG and Shanghai Banking Corporation's problems with overseas offshoots continued in the early part of this year. James Capel, the bank's London stockbroker, suffered a £7m (US$11m) net loss in the first quarter, and Marine Midland Banks of New York has required cash injections totalling $300m.

This was reported yesterday at the bank's annual general meeting.

It was also announced that family interests of Sir Yue Kong Pao, the Hong Kong entrepreneur, had bought 20 per cent stakes held by the bank in two of his privately-owned shipping companies, World Maritime and World Shipping and Investment, for undisclosed sums.

The sale of these stakes will help boost the bank's finances which are also expected to be supplemented within the next five months by a reduction of between HK$1.5bn (US$192m) and HK$2bn of its exposure to Mr Alan Bond's ailing Australian business empire.

Mr William Purves, the bank's chairman, said yesterday that Capel's first quarter £7m loss was caused by losses in convertible market making in the UK, although the rest of the broker's business made a "small profit."

This is a setback to Capel's hoped-for recovery, which began last year with a £4.6m profit after losses totalling £46.2m in the previous two years.

The Hongkong Bank has said it will ensure that Marine Midland has sufficient capital resources to carry out a restructuring and retrenchment programme and that Marine's "tier one" capital will be equivalent to not less than 5 per cent of its total assets at the end of this year.

These commitments have led to injections totalling US$200m equity and $100m debt.

Marine Midland has been hit in recent months by problems shared by other US banks, especially a rise in non-performing loans on the commercial real estate side.

The Hong Kong capital injections will also help the bank with its restructuring plans. These include the planned $5bn reduction of assets by way of disposals and normal run-offs.

Marine Midland is hoping to sell its $1.4bn portfolio of loans linked to highly leveraged takeovers and is also in negotiations with the Ford Motor Company to sell its car loan business, which has $4.9bn of loans and leases.

The disposal of the 20 per cent stakes in Sir Y.K. Pao's shipping companies follows the Hongkong Bank's sale of 30 per cent in World Maritime and 28 per cent in World Shipping and Investment in December 1988.

The bank regards the disposals as part of a restructuring of its investments in Hong Kong, and it retains a 37.5 per cent stake in another of the group's companies, World Finance.

Deutsche Bank head urges new insider law

By Andrew Fisher in Frankfurt

WEST GERMANY needs tough and enforceable laws on insider trading and the disclosure of shareholdings if it is to develop properly as an international financial centre, Mr Hilmar Kopper, the chief executive of Deutsche Bank, said.

At present, German insider rules are voluntary and directors of some companies have refused to accept them. Although the present situation was "better than nothing," said Mr Kopper, Frankfurt's growth as a financial centre required a legal solution with proper penalties.

Talking to Frankfurt journalists, he noted this would come anyway as part of the harmonisation trend in Europe. "I am not crusading for new insider rules now." He added: "We will get a European law whether we want it or not."

On the disclosure issue, he referred to the recent Swedish takeover of Feldmühle Nobel, in which many small shareholders were left at a disadvantage. He called this a "coolly enacted dispossession." (Stora, the Swedish pulp and paper group, took majority control of the German group, but offered minority shareholders a lower price than the average it paid for control.)

"This should not happen," Mr Kopper said, noting that small shareholders had not had a chance to keep up with events. "It would not have happened if companies were required to disclose when they had reached 15 per cent. This (requirement) has to come here, otherwise we (the German stock market) will remain a casino." Mr Kopper has said he actually favours a lower 5 per cent disclosure limit for Germany when the relevant EC guideline is translated into the laws of member states.

This is due to happen by the end of this year. Yet until this guideline became law, Mr Kopper said he saw no reason for Deutsche Bank or other companies to abandon restrictions on voting rights, mostly 5 per cent, now the subject of criticism.

● Commenting on Deutsche Bank's ambitions in East Germany, Mr Kopper said the addition of 25 per cent more people to Germany through unification should help the bank increase its market share. This is currently 5 per cent in West Germany, low for a big bank in an industrialised country. He hoped its share in East Germany could be around 7 per cent. Deutsche Bank has signed a letter of intent to take over around 100 branches from Deutsche Kreditbank in East Germany.

Diversification helps Hoesch to increase its net result by 31%

By David Goodhart in Bonn

HOESCH, the West German steel and engineering group, has reported a 31 per cent rise in net profits to DM76m ($45m) and a 28 per cent rise in sales for 1989. It has continued its diversification away from steel, which now *accounts for 30 per cent of sales.*

The sales rise — from DM8.34bn to DM10.7bn — was largely accounted for by the consolidation of the Orenstein & Koppel group. In the current year most of the rest of Hoesch's unconsolidated businesses will be integrated and from next year Hoesch will begin presenting worldwide group results. Worldwide sales in the current year, including unconsolidated businesses, came to about DM16bn.

Operating profit in 1989 jumped from DM292m to DM558m, and cash flow from DM692m to DM1.02bn, but the company said that DM396m had been placed in reserves to cover various extraordinary payments — most importantly the repayment of loans from the state to finance restructuring of the steel sector. The dividend has been raised from DM8 to DM10 per share.

Mr Detlev Rohwedder, chairman, reported that return on sales in steel has now risen to almost 10 per cent. He also indicated that returns had risen considerably in the manufacturing and industrial technology division which now accounts for 48 per cent of total turnover.

Mr Rohwedder repeated that he had no knowledge of any plans to bid for Hoesch. There have been rumours of bid attempts by both British Steel and Usinor-Sacilor.

For the first quarter of the current year sales and earnings have matched the level of last year and the order backlog guarantees full capacity use through the years. But Mr Rohwedder saw some clouds on the horizon arising from the slight weakening in the international steel market.

West German raw steel production fell by 5 per cent in the first quarter of 1990 and production *for the year is expected to decline* to 38m or 39m tonnes from 41m tonnes in 1988 and 1989.

Hoesch has recently been active in the UK market picking up 80 per cent of Gwent Steel, the South Wales steel processor, and Jonas Woodhead, a spring producer and subsidiary of Carclo Engineering.

● Mr Herbert Gienow, chairman of Klöckner-Werke, the West German steel and engineering group, said that the agreement to sell to British Steel the Klöckner-Mannstaedt works in Troisdorf, near Bonn, which produces special sections, was now virtually complete.

Future of B&C is in the balance

By David Owen, in London

THE FUTURE of British & Commonwealth Holdings remained in the balance yesterday following an apparently inconclusive meeting of the hard-pressed UK financial services group's loan stock holders.

A private meeting of holders of £320m worth of 7¾ per cent convertible loan stock had been arranged which, it was believed, might take steps to demand immediate repayment of the stock by marshalling the 20 per cent vote required under the securities' covenants.

In the event, what emerged was a statement to the effect that "a number of significant stock holders are writing to the trustee to demand repayment." There were conflicting reports as to whether the 20 per cent threshold had been attained.

Individuals close to the gathering said that there was likely to be another meeting of loan stock holders next week, by which time B&C was expected to have tabled its eagerly-awaited survival plan.

Both B&C and its bankers have strongly urged loan stock holders to await this plan before acting. "We think the loan stock holders would be wise to at least see what the company proposes before they take any action", said one banker yesterday.

Holders are worried that £164m worth of redeemable preference shares from Caledonia Investments might be redeemed before the 7¾ per cent convertibles are repaid. Meanwhile, Law Debenture Trust, trustee for three issues of B&C bonds, has appointed Royal Exchange Trust as its attorney to exercise independently the duties of the trustee under the deed constituting the 7¾ per cent convertibles.

Law Debenture said it believed that "continuing developments" may require different considerations to be taken into account when assessing what is in the best interests of the holders of the convertibles on the one hand and the remaining two classes of security on the other. "We think we should delegate now before we get into a real conflict," a spokesman said.

As well as the convertibles, Law Debenture is trustee of B&C's £231m 10.5 per cent 2012 unsecured loan stock and its 10¾ per cent 1996 guaranteed bonds. These two classes of security rank on a par with B&C's bankers at the head of the hierarchy of creditors.

NOTICE OF REDEMPTION

HMC MORTGAGE NOTES 2 PLC

Class A Mortgage Backed Floating Rate Notes Due February 2015

NOTICE IS HEREBY GIVEN to the holders of the Class A Mortgage Backed Floating Rate Notes Due February 2015 (the "Class A Notes") of HMC Mortgage Notes 2 PLC (the "Issuer") that, pursuant to the Trust Deed dated 23rd February, 1988 (the "Trust Deed"), between the Issuer and The Law Debenture Trust Corporation p.l.c. as Trustee, and the Agency Agreement dated 23rd February, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A Notes, Available Funds as defined in the Terms and Conditions in the amount of £12,000,000 will be utilized on 23rd May, 1990 (the "Redemption Date") to redeem a like amount of Class A Notes. The Class A Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A NOTES OF £100,000 EACH BEARING THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW

Bearer Notes

1678	1743	1820	1885	1952	2009	2077	2141	2194	2340	2538	2727
1680	1754	1834	1887	1959	2010	2086	2148	2196	2348	2550	2739
1683	1756	1836	1889	1963	2012	2093	2150	2203	2372	2570	2759
1687	1762	1845	1896	1967	2019	2095	2154	2205	2419	2605	2761
1693	1766	1847	1914	1974	2042	2101	2160	2208	2421	2628	2789
1700	1783	1854	1920	1978	2045	2103	2171	2215	2471	2630	2822
1717	1788	1864	1932	1981	2060	2109	2175	2218	2478	2651	2834
1720	1792	1866	1938	1989	2062	2114	2177	2261	2485	2653	2843
1728	1800	1869	1945	1993	2068	2116	2180	2274	2499	2707	2851
1736	1808	1871	1946	2005	2073	2120	2182	2280	2509	2711	2857

The Class A Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company of New York
PO Box 161
1 Angel Court
London EC2R 7AE

Morgan Guaranty Trust Company of New York
Avenue des Arts 35
B-1040 Brussels, Belgium

Banque Internationale a Luxembourg S.A.
2 Boulevard Royal
L-2953
Luxembourg

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015
Attn: Corporate Trust Operations

In respect of Bearer Class A Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unmatured coupons and talons appurtaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at any specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with, a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A Notes which are the subject of this Notice of Redemption.

HMC MORTGAGE NOTES 2 PLC
By: Morgan Guaranty Trust Company
of New York, as Principal Paying Agent

Dated: May 9, 1990

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if presenting your Class A Notes to the paying agency's New York Office.

TO HOLDERS OF

INTERFIRST TEXAS FINANCE N.V.

Guaranteed Floating Rate Notes Due May 1989
(Unconditionally guaranteed as to payment of principal and interest by IFRB Corporation, successor to InterFirst Corporation)
CUSIP No. 458924 AA 5

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Trustee ("Trustee") under the below-mentioned Indenture provides the following to holders of the above described Notes:

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

In re
INTERFIRST TEXAS FINANCE N.V.,
Debtor.

Case No. 389-34612-SAF-11
(Chapter 11)

NOTICE OF FILING AND HEARING ON DISCLOSURE STATEMENT

PLEASE TAKE NOTICE that on April 12, 1990, InterFirst Texas Finance N.V. ("Texas Finance") and its Official Unsecured Creditors' Committee ("Committee") jointly proposed and filed a Plan of Reorganization ("Plan") for Texas Finance and a related Disclosure Statement ("Disclosure Statement").

PLEASE TAKE FURTHER NOTICE that a hearing to consider approval of the Disclosure Statement has been set for May 29, 1990 at 1:30 p.m. Central Daylight Time before the Honorable Steven A. Felsenthal, Room 15-C-22 at 1100 Commerce Street, Dallas, Texas. Such hearing may be adjourned from time to time without further notice to creditors or other parties in interest other than by an announcement of such adjournment on the date scheduled for the hearing.

Objections to the Disclosure Statement must be in writing, filed with the Clerk of the Bankruptcy Court, 1100 Commerce Street, Dallas, Texas 75201 and served on counsel for Texas Finance, Michael A. Rosenthal, Gibson, Dunn & Crutcher, 1717 Main Street, Suite 5400, Dallas, Texas 75201-4605, and counsel for the Committee, Henry L. Gompf, Jones, Day, Reavis & Pogue, 2300 Trammell Crow Center, 2001 Ross Avenue, Dallas, Texas 75201 no later than 4:00 p.m. Central Daylight Time on May 25, 1990. If no objections are filed, the Bankruptcy Court may deem the Disclosure Statement to be unopposed and may approve it.

A copy of the Disclosure Statement is on file with the Bankruptcy Court and may be examined by interested parties at the Bankruptcy Court during its regular business hours. Copies of the Disclosure Statement and the Plan may be obtained on written requests directed to: Michael A. Rosenthal, Gibson, Dunn & Crutcher, 1717 Main Street, Suite 5400, Dallas, Texas 75201-4605.

PLEASE TAKE FURTHER NOTICE that, if you are a holder of Texas Finance Guaranteed Floating Rate Notes due May, 1989 ("Notes"), issued pursuant to that certain Indenture dated as of May 10, 1984, as supplemented, by and among Texas Finance, InterFirst Corporation (predecessor to IFRB Corporation as Guarantor) and Morgan Guaranty Trust Company of New York, as Trustee ("Trustee"), and you have not previously identified yourself to the Trustee, you should immediately do so in order that you may directly receive future material relating to the Notes. The Trustee may be contacted at the following address:

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, as Trustee

Corporate Trust Administration
30 West Broadway, New York, NY 10015
Attention: Mr. Patrick J. Crowley, Vice President
(212) 587-6027
Fax (212) 693-0534

By InterFirst Texas Finance N.V.
Debtor in Possession

Dated: April 30, 1990

U.S.$200,000,000

Indian Oil Corporation Limited
(established under the Companies Act, 1956 of India)
Guaranteed Floating Rate Notes Due 1994
Unconditionally and irrevocably guaranteed as to payment of principal and interest by
India
Acting by its President

Interest Rate	9⅛% per annum
Interest Period	9th May 1990 9th November 1990
Interest Amount per U.S.$10,000 Note due 9th November 1990	U.S.$466.39

Credit Suisse First Boston Limited
Agent Bank

We are pleased to announce that

Harold Brown

has joined our firm as
Senior Managing Director and Advisor

E. M. WARBURG, PINCUS & CO., INC.
NEW YORK LONDON LOS ANGELES

May 1990

INTERNATIONAL COMPANIES AND FINANCE

Storing trouble in the debt departments

Karen Zagor looks at why the US retail sector is giving contradictory signals

THE US retailing sector has been rife with contradictory portents during the past few months. In the department store sector, BAT Industries, the UK conglomerate, sold both Marshall Field and Saks Fifth Avenue for more money than anyone had dared predict, at $1.04bn and $1.5bn respectively.

Less than four months earlier, Campeau Corp failed to solicit bids of $1bn for its Bloomingdale's stores and, in another move this month, the stores were taken off the block.

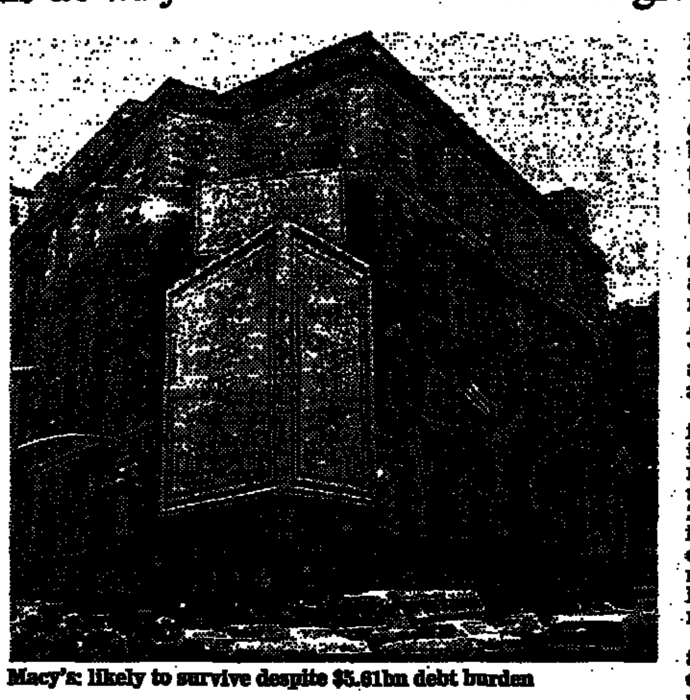
During the same week that Saks was sold, Ames Department Stores filed for bankruptcy protection. Yet in the discount retailing sector, where Ames was the fourth-biggest operator, Wal-Mart is posting solid earnings on sales expected to grow from $25.8bn in 1989.

Are these signs of boom or bust? Basically neither. What is happening seems to be a shake-out in the retail sector, with the over-leveraged or badly-managed businesses running into trouble while the stronger companies consolidate. At the same time, suppliers are keeping a much closer watch on the creditworthiness of retailing chains.

The spectre of recession, and with it a downturn in consumer spending, no longer hangs over the retail sector. Americans still spend enough to make retailing a lucrative business for a well-managed company. But growth in real spending is modest, and sales of some big-ticket items, such as home furnishings and vehicles, seem to be falling.

In this environment, "the strong will get stronger and the weak will get weaker," said Mr Edward Comeau, a retail analyst at Oppenheimer.

BAT succeeded where Campeau had failed for several reasons. When Bloomingdale's was put on the block in November, the stores' value to investors was diluted by the large number of other big US department stores for sale, including the BAT operations. By the time BAT closed on Saks and Fields, they were the only big names left.



Macy's: likely to survive despite $5.61bn debt burden

In addition, Saks is "more a specialty operation than a department store," said Mr Walter Loeb, a respected retail analyst in New York. Unlike Bloomingdale's, Saks has very focused departments, without exposure to home furnishing. Furthermore, the Saks stores are solid performers, while the performance of Bloomingdale's stores outside Manhattan was erratic.

The most striking difference between the operations, however, was the amount of debt they carried. BAT bought Saks in 1973 for $250m and nine years later spent $368m to acquire Marshall Field.

In contrast, Campeau acquired Bloomingdale's as part of its 1988 Federated Department Store acquisition for $6.6bn, with most of the money coming from high-yield junk bonds.

While BAT had the liquidity to invest $860m in Saks during the 1980s, one analyst described the Bloomingdale's stores as "stressed" by Campeau's debt. When Campeau decided to sell the stores, the hefty debt burden was an added deterrent to investors.

It is ironic that retailing should have been such a fruitful field for big leveraged buyouts during the 1980s. The industry does not lend itself to lack of liquidity, since adequate cash flow is critical to the payment of customers.

"When retailers take on a large amount of debt, there is very little flexibility to help them weather transition," said Ms Stacy Dutton, retail analyst at Morgan Stanley in New York.

In Campeau's case, the burden of having to pay both its bankers and suppliers proved too onerous, and the problems were compounded by sluggish sales at Christmas.

Even when a reasonable schedule of debt repayments is arranged with lending banks, retailers can still flounder. Ames Department Stores, which choked on its $800m acquisition of Zayre stores, is an example.

"Ames negotiated a very favourable arrangement with its bankers, with debt repayments of only $25m a year," said Mr Comeau. Although the Zayre operations were unprofitable when Ames bought the company, the favourable debt repayment schedule should have given Ames plenty of room to manoeuvre.

But the Rocky Hill, Connecticut-based company made several miscalculations in its merger strategy and then erred fatally in not working closely enough with its lending banks.

Ames fell behind in its plans to turn the unprofitable Zayre stores around, and when the company ran into cash problems at the beginning of the year, its lenders refused to add another credit line.

According to Ms Dutton, a good relationship with banks has been central to the survival of R. H. Macy's, another big name in US retailing which is having trouble digesting the debt it took on in a $3.6bn management-led LBO in 1986.

Although Macy's recently reported a second-quarter loss of $39m, and has a debt burden of $5.61bn, most analysts believe the chain will survive.

"Macy's is an extremely well-run company," said Mr Gilbert Harrison, chairman of Financo, a New York merchant banking company specialising in retailing mergers and acquisitions. "I don't think we'll see another Campeau."

However, the fear of another Campeau is prompting distributors to take precautions. McKesson, a leading distributor to drug stores, recently took a charge against earnings and increased its reserve against customer accounts receivable because some of its highly-leveraged customers had fallen behind in payments.

The San Francisco-based company said some of its retail customers were using suppliers to supplement their bank credit lines. "Given the narrow margins inherent in the distribution business, the risk-reward ratio for McKesson to act as an unsecured creditor in those situations is not consistent with prudent business practices," said the company's chairman and president.

"What we are seeing today in the retail and other industries represents the price that will have to be paid for the leverage binge of the 1980s."

US factors, the low-profile financiers of the US clothing industry, have also started taking a more cautious line. "Before all the leverage, credit was unquestioned and annual financial statements were adequate. Now we need to stay closer to the stores and ask more questions," said Mr Gabe Romeo, senior vice president at BancBoston Financial.

However, neither factors nor distributors can afford to sever ties with retailers until they are convinced that the retailer is on the brink of bankruptcy. The danger of losing a client's goodwill is potentially as grave as the dangers of a client declaring bankruptcy.

Meanwhile, McKesson is studying ways to change the terms and conditions of sale to highly-leveraged customers. It has also increased customer credit surveillance.

Canada Packers hit by deficit

By Bernard Simon in Toronto

CANADA PACKERS, the food processing company soon to be controlled by Hillsdown Holdings of the UK, suffered its first loss in 12 years in the final quarter of fiscal 1990 to end what the company called "one of the most difficult and unsatisfactory years" in its history.

The loss for the three months to March 31 was C$101,000 (US$87,000), compared with earnings of C$751,000 or 2 cents a share, a year earlier. Sales advanced by 9 per cent to C$753.5m.

For the year as a whole, net income halved to C$12.6m or 35 cents, from C$25.2m or 68 cents. The figures include income from discontinued operations of C$11.5m and C$15.5m respectively. Revenue edged up 1.5 per cent to C$2.97bn.

Although fourth-quarter operating income was substantially higher than last year, the bottom line was pulled down by the C$9.4m cost of closing a beef slaughtering facility outside Toronto.

The company said that poor profitability was due chiefly to highly competitive beef, pork and oilseeds operations. Remaining businesses, which include grocery products and poultry, had a "satisfactory" year.

The recent rationalisation of the company is continuing with the sale of its 50 per cent interest in Britain's Haverhill Meat Products to its partner, the J. Sainsbury supermarket chain. Canada Packers is also selling its gelatin business to Nitta Gelatin of Osaka, Japan.

The pace of change is expected to accelerate when Hillsdown acquires its planned 56 per cent stake in Canada Packers, probably within the next month or two.

The British company plans to combine CP with its existing Canadian subsidiary, Maple Leaf Mills. It is widely expected that CP will bear the brunt of the subsequent restructuring.

Big gains at El Al and Israel Chemicals

By Hugh Carnegy in Jerusalem

ISRAEL Chemicals and El Al Airlines – two of Israel's top state-owned companies slated for privatisation – yesterday reported sharply improved performance in 1989.

Israel Chemicals, a leading producer of bromines, phosphates and fertilisers, announced net profits of $100.6m, up from $55m the previous year largely as a result of high prices internationally. Turnover reached $1.16bn, of which more than half went for export.

The once ailing El Al posted a 30 per cent rise in net profits to $24.2m, on sales of $713.6m, its fourth consecutive annual profit.

Passenger traffic, which slumped in 1988 when tourists stayed away from Israel because of the Palestinian uprising, improved by 12 per cent to 1.74m, giving an average load figure of 76 per cent.

Both companies are widely regarded to be ripe for privatisation, but the process has been hampered in both cases by political delays.

Finance Ministry plans to sell a 50 per cent stake in Israel Chemicals by private auction to a foreign investor have been blocked by objections in parliament to the sale abroad of what is regarded as a key strategic company.

Resolving the issue has been further delayed by the prolonged government crisis. This has also prevented progress – perhaps until next year – of plans to float up to 49 per cent of El Al on stock exchanges in the US and Tel Aviv.

Israel Chemicals warned that its profits in 1989 – which produced a return on equity of 16 per cent – had been swollen by a surge in prices for its products. It said a decline in prices this year would cause a profits drop.

The move to a public flotation at El Al is complicated by the company remaining in official receivership imposed in 1982 when it was beset by labour problems and debt.

Company debt, once around $500m, is down to $279m.

Six of its 20-strong fleet of aircraft are still government-owned.

However, the airline said it received no state assistance in funding a $220m programme to buy five new Boeing 757s and one second-hand Boeing 747 by the end of this year.

● The Tel Aviv Stock Exchange yesterday suspended trading in six oil exploration companies following the announcement by Isramco Israel that it was assessing the commercial feasibility of a gas find in the Mediterranean off the Israeli coast.

Oil company shares shot up following a newspaper report of an oil find. Isramco denied the report, but said its drill site Yam-2 had discovered gas.

Circle K chief executive resigns

By Roderick Oram in New York

MR KARL Eller has resigned as chairman and chief executive of Circle K, a leading convenience store chain burdened by heavy debt and losses in the face of stiff competition from petrol station stores.

The Phoenix, Arizona-based company will be run by Mr Robert Dearth, its president and chief operating officer since January. He is a close associate of Mr Carl Lindner, the Cincinnati investor who has a 38 per cent stake in Circle K.

Circle K agreed last month with its creditors on the principles of a restructuring of its $510m of debt, a move designed to save the company from seeking protection of the bankruptcy courts.

Details, including an offer to swap some junk bonds for new debentures convertible into Circle K stock, are due to be released shortly.

Mr Eller, 62, joined Circle K in 1963 after a career in media companies. He had built up a billboard company which he sold to Gannett in the late 1970s.

After losing a fight for the top post at Gannett, he moved on to Columbia Pictures which he subsequently sold to Coca-Cola. He left after failing to persuade the new owners to build a media empire around Columbia.

He sank most of his fortune into Circle K, taking a 7.1 per cent stake. Relying heavily on junk-bond finance, he expanded it rapidly from its base of 1,300 stores, concentrated in the south-west, into a national chain of 4,700, second in size to Southland's 7-11 chain.

Losses began to accumulate as oil companies built up the convenience store side of their petrol stations. In the past year, Circle K changed its retailing strategy twice but, burdened by debt, it still ended in a loss of $28.1m on revenues of $872.5m.

Swedish law firms in merger plan

By John Burton

SCANDINAVIA'S biggest law firm will be created through the merger announced yesterday between Advokatfirman Lagerlof, Stockholm's largest law firm, and Gothenburg-based Dr Philip Lemans Advokatbyra, Sweden's oldest law firm founded in 1849.

The new firm, Lagerlof & Leman, will have a staff of 115 lawyers and an annual turnover of SKr200m. The two firms said the merger would strengthen their domestic position and improve their ability in expanding abroad. The firms have offices in New York and London.

Both firms serve a corporate clientele and want to increase their share of international business, which they describe as accounting for a significant amount of their activity.

Minnova needs C$150m to develop mines

MINNOVA, a Noranda affiliate, has two potential mines in northern Quebec requiring C$150m (US$129m) or more to develop, writes Robert Gibbens in Montreal.

Minnova, a gold and base metals producer in Quebec and western Canada, expects to make a final decision on the Mobrun property in the Lac Dufault copper belt of north-western Quebec by September. It would be an underground mine with daily production of 3,000 tonnes of ore containing copper, zinc, silver and gold.

The second property is Lac Frotet in the Chibougamau mining area to the east. This would be an open-pit goldmine. The ore body is low-grade but extensive, and Minnova could move an existing mill to the mine site.

Minnova's first-quarter profit was C$4.4m or 31 cents a share, up from C$233,000 or 2 cents a share a year earlier, on net sales of C$47.7m against C$22.5m.

Sharp drop at Multi-Purpose

By Lim Siong Hoon in Kuala Lumpur

MULTI-PURPOSE, the diversified Malaysian group which faces extensive reorganisation, recorded sharp declines in profit levels last year.

Group pre-tax profit fell by 54 per cent to M$30m (US$11m), while turnover dropped by 4 per cent to M$516m. Profit after tax declined 77 per cent to M$8m.

Mr Lim Thian Kiat's Kamunting, an investment group and toll-road operator, gained a controlling 29 per cent stake in the conglomerate last November.

But changes made by Mr Lim could significantly alter the group's composition and results this year and beyond.

The changes centre on a shift away from plantations, shipping and trading to commercial and residential property development, where Mr Lim expects dividend yields to improve greatly.

That gambit has resulted in asset sales – worth more than M$500m so far this year – from Dunlop Estates and Mulpha, the plantation and trading subsidiaries.

Multi-Purpose attributed last year's poor profitability to weak commodity prices and substantial provisions for doubtful debts and obsolete stocks at its trading and engineering units. However, its gambling, banking, property and shipping operations improved pre-tax profits.

The group's profit after tax and minority interests fell by 61 per cent to nearly M$6m, or 0.8 sen (Malaysian cents) a share from 2 sen in 1988.

● Malaysian Plantations (MPlant), another of Mr Lim's groups, also reported dismal results, ahead of a proposed merger with Kamunting.

The group's pre-tax profit fell from 1988's M$14m by nearly 50 per cent to M$7m. Turnover dropped by 17 per cent to M$44m.

Profit after tax fell by 42 per cent from M$8m to M$5m to give earnings of 8.5 sen, compared with 14.7 sen previously.

The set of results represents one of the last for MPlant, a 30 per cent Kamunting-owned group which, like Multi-Purpose, is being restructured by Mr Lim.

Following a M$179m share issue by its KL Land subsidiary, MPlant has been acquiring properties primarily from units within the Multi-Purpose group.

This will lead to the formation of a new public-quoted company in KL Land.

The changes within MPlant will culminate in a planned merger this year with Kamunting. Kamunting Amalgamated, the outcome of the merger, will have issued capital of M$500m, split 3:1 between Kamunting and MPlant shareholders.

MPlant shareholders will see the group's net assets dissipate by 30 per cent to the equivalent of M$1.10 a share from M$1.57 last year, and M$2.61 in 1988.

However, N.M. Rothschild, adviser to the merger, says this fall ought to be compensated by an increase in gross earnings, by 19 per cent in 1990 and 23 per cent in 1991.

Fiat hits record earnings and boosts dividend L50

By John Wyles in Rome

ITALY'S Fiat Group yesterday reported a 10 per cent increase in 1989 consolidated net earnings to a record L3,306bn ($2.68bn) and revealed that it had more than half completed its share buy-back programme.

The rise in net earnings, more modest than in recent years, largely reflects a much heavier tax burden which has risen from 27 per cent in 1988 to 31 per cent of operating profits.

Revenues were 17.5 per cent higher at L52,019bn, or 14 per cent after discounting the first-time consolidation of the group's financial services operations.

Investments rose marginally to L3,423bn while the net cash balance at December 31 dropped slightly from L2,349bn to L2,121bn.

The 1989 dividends are all to be raised by L50 a share, to L370 for ordinary and preferred shares, and to L400 for savings shares.

Having been authorised at last June's shareholders' meeting to spend L1,000bn on buying back the equivalent of 5 per cent of the quoted Fiat SpA's ordinary, preferred and savings stock, the company revealed that it had so far spent L586bn on the acquisition of 46.7m ordinary shares, 7.74m preferred and 6m savings shares.

As usual Fiat Auto was the jewel in the group's crown last year, accounting for 54.6 per cent of total sales and 57.7 per cent of net profits, slightly lower than in recent years because of new consolidations. The Fiat, Lancia and Alfa marques sold a total of 2.284m units, 3.5 per cent more than in 1988, and retained their leading 14.9 per cent of the European market.

Of the group's 13 other operating sectors, only two recorded falls in profits last year. Snia Bpd's net earnings dropped from L84.9bn to L68.2bn, partly because of difficulties in the defence and space sectors.

Net profits from publishing and communications fell from L17.3bn to L4bn, largely because of a heavy drop in earnings from the La Stampa newspaper.

The Fiat board decided yesterday to increase the company's capital by L85.54bn through an ordinary and savings share issue to accomplish the incorporation in Fiat Spa of the holding company Saes, which owns 51 per cent of La Rinascente department store chain.

Fiat said the incorporation would be done on the basis of two of its ordinary or savings shares for two of the same category in Saes.

Continental up on depreciation method change

CONTINENTAL, the West German tyre maker, said its 1989 group net income rose 17 per cent to DM227.8m ($135.5m) from DM194.8m a year earlier. It will pay an unchanged dividend of DM8 a share for 1989, AP-DJ reports.

Sales rose to DM8.382bn from DM7.91bn in 1988.

The rise in 1989 group net reflects a change in Continental's depreciation method, while the underlying earnings remained unchanged last year, the company had said in March. At the time, it ascribed the flat profit trend to a 67-day strike at its General Tire unit in the US and declining tyre prices.

Continental also announced it had reached agreement in principle to acquire the industrial rubber activities of Gilardini, a subsidiary of Italian car maker Fiat, for an undisclosed amount.

The unit, called AGES, generated equivalent sales of nearly DM200m through the manufacturing of rubber parts for the automobile industry at three plants near Turin, Continental said.

CIR consolidates Mondadori gains

By Haig Simonian in Milan

MR Carlo De Benedetti's CIR holding company yesterday pressed to consolidate recent gains in the battle for Mondadori, the leading Italian publisher, by calling for a shareholders' meeting to appoint a new board and depose Mr Silvio Berlusconi as chairman.

The plan, announced at a meeting of L'Espresso, the media group now linked to Mondadori, follows CIR's success last week in regaining boardroom positions at Amef, the holding company which owns a bare majority of Mondadori's ordinary shares.

CIR had been expected to wait until June 26, when a scheduled Mondadori shareholders' meeting is due to vote on the conflicting rights issues advanced by Mr De Benedetti and Mr Berlusconi.

The proposal to call a new Mondadori meeting earlier came as a new board was appointed at L'Espresso, reflecting the new balance of power indicated at Amef last week and likely to be repeated at Mondadori itself in due course.

Reflecting a similar division of power between Fininvest, CIR and appointees from the court which has sequestered a key block of shares, the new L'Espresso board is likely to increase the pressure on Mr Berlusconi to clinch a negotiated deal, claimed a CIR official.

Nevertheless, talks on a settlement remain blocked over the size of payments due. Under a scheme in which CIR would receive La Repubblica and L'Espresso, while Mr Berlusconi would take over Mondadori's publishing and advertising interests, Fininvest had proposed to pay L100bn ($81m), against a demand for L575bn by CIR. Their positions may be slightly closer on the alternative proposal, whereby Mr Berlusconi has offered to pull out of Mondadori for around L1,000bn, and give up ownership of Panorama, Italy's second biggest news magazine.

Strength of D-Mark depresses Bayer 3%

By David Marsh in Leverkusen

GROUP pre-tax profits of Bayer, one of the big three West German chemical groups, fell 3.1 per cent to DM930m ($553M) in the first quarter compared with the first three months of 1989. Turnover fell 2.7 per cent to DM11.0bn from DM11.0bn.

Mr Hermann Strenger, chairman, said the fall in profits and sales was largely due to the weakness of key trading currencies against the D-Mark.

Volume sales rose by 3 per cent in the first three months, but currency fluctuations caused a fall of 5 per cent.

The profits fall was less marked at the parent company level, where pre-tax first quarter earnings dropped 1.9 per cent to DM525m. Parent company first-quarter turnover rose 2.8 per cent to DM5.3bn.

Mr Strenger was confident that Bayer's earnings for the whole of 1990 would remain around the record level of 1989, when the group boosted net profits by 10.8 per cent to DM2.1bn on turnover up 7 per cent to DM43.3bn.

Bayer is paying an increased dividend of DM13 for 1989, up from DM12 for 1988. The pre-tax return on turnover last year, at 9.5 per cent, was Bayer's best for 20 years.

He said first-quarter 1989 results were especially good and added 1990 would continue the "positive developments" of the 1980s. He warned again about the Bonn government's health reform measures on the company's domestic pharmaceutical activities, which might not show a profit this year.

The group's fixed asset investment in 1990 is likely to rise by 4 per cent or 5 per cent to DM3.6bn, of which DM1.9 bn will be in West Germany and DM1.7bn abroad, led by western Europe with DM820m and North America with DM800m. First-quarter group turnover rose 5 per cent in West Germany and only 1 per cent in the rest of the EC. Sales fell 33 per cent in eastern Europe, 19 per cent in Asia, 7 per cent in North America, and 6 per cent in Latin America.

Ericsson strategist takes the lead

Robert Taylor meets the Swedish telecoms equipment group's new chief

Lars Ramqvist: source of good ideas for development

Mr Lars Ramqvist has no need for a period of apprenticeship before he gets down to work today as the new chief executive of the telecommunications equipment group Ericsson, Sweden's most successful company.

After joining the company 10 years ago to run its office automation division, 51-year-old Mr Ramqvist played a key role in Ericsson's recent transformation when he was given the task of drawing up a new core business strategy for the company in the spring of 1987.

At that time Ericsson was stumbling badly as a result of its mistaken plan to widen its activities beyond telecommunications into information technology. Under pressure Mr Ramqvist devised a "return to basics" programme which was endorsed by the company in the spring of 1987.

It has turned out to be a winning formula in the revival of Ericsson's fortunes over the past two years. Certainly it helped to boost Mr Ramqvist's credentials for heading the company – he became chief executive yesterday.

"We were lucky in our timing," he admits. The core strategy was launched when the telecommunications market began to grow rapidly, and Ericsson was a beneficiary of the new expansion. "The telephone companies started believing in us again," says Mr Ramqvist. "They had not done so when they saw us fooling around elsewhere. Now they trusted us again and came back."

In fact, the new chief executive has been deeply involved in the ups and downs of Ericsson in the 1980s, working in a wide range of areas. With a physics doctorate from Uppsala University and a stint in a research laboratory for Stora, Sweden's forestry giant, Mr Ramqvist has proved to be a source of good ideas for Ericsson's development.

He first came to the attention of the company's board with his shrewd advocacy of a joint deal with Texas Instruments, which involved the American company providing the micro-electronics for Ericsson's AXE digital switching system. Out of this emerged the company's eventual decision to disinvest from computer and information technology.

Mr Ramqvist studied law in his spare time and is an expert in licensing, knowledge that he found very useful when involved in the highly detailed negotiations he headed as chief of Ericsson's radio communications division, which ended with last summer's joint venture deal with General Electric of the US to attack the world's fast growing mobile phone market.

Under Mr Bjorn Svedberg's quiet style of leadership Ericsson has lacked a high public profile but this looks set to change with the more outspoken Mr Ramqvist. An active Young Socialist in his youth, he takes a critical and firm view of what needs to be done to ensure Swedish industry competes effectively on world markets in the 1990's.

These days Mr Ramqvist talks about the "destructive politics" of the Social Democrats, of the need to maintain nuclear energy and above all "harmonise" the country with the rest of western Europe.

"There is a gradual exodus going on into the European Community," he admits. "Ericsson could do everything in the EC. It would be easy for us because we have been in western Europe for a long time. We are already a part of the EC."

No plans exist at the moment to transfer any of Ericsson's existing production facilities out of Sweden into the EC but Mr Ramqvist does not give the impression that he will maintain the company's Swedish presence for any sentimental reasons.

In his opinion, Ericsson is in a strong global position to grow rapidly in the 1990s. The company's broad global presence in world telecommunications should enable it to face fierce competition from rivals like AT&T, Siemens and Motorola without losing ground overall.

The liberalisation of telecommunications will provide greater opportunities for the company's growth in countries where the forces of industrial nationalism have sought to freeze out foreign intruders in the past.

Ericsson believes in establishing itself in new markets through different forms of joint collaboration. This is what it did in the US with its tie-up with Atlantic Richfield in the early 1980s, with Thorn EMI in Britain, Telefónica in Spain and Matra in France. "We need to co-operate with others in the development of basic systems," says Mr Ramqvist.

In September he plans to hold a summit conference of Ericsson senior managers to set out the company's offensive strategy for the 1990s. Already Mr Ramqvist has some clear ideas of what he wants to achieve.

"My first task will be to trim the organisation so that we can respond faster in more flexible markets," he asserts. "We have to get closer to our customers. The market will grow more fragmented with increased competition as it is standardised and liberalised."

As a result, he believes Ericsson will have to become "more focused on quality and price. The fight will be on the levels of service we can provide. We will have to put a greater emphasis on the marketplace.

"We need to respond to its demands in a more professional manner."

Saatchi shares advance

By Alice Rawsthorn

SAATCHI & SAATCHI, the troubled UK communications group, yesterday saw its share price leap by 10 per cent from 107p to 118p after heavy buying in the US, fuelled by favourable comment and speculation about a French bid.

The rise in Saatchi's shares followed last Friday's news that Mr Robert Louis-Dreyfus, Saatchi's new chief executive, had dismissed Mr Roy Warman and Mr Terry Bannister.

The dismissals have been interpreted by the markets as a sign that Mr Louis-Dreyfus has won strategic control of the company from the Saatchi brothers and that he now has the authority to get to grips with its financial problems.

Saatchi's shares have declined dramatically in recent weeks in response to a series of gloomy announcements about its financial difficulties. The shares, which were worth nearly 300p a year ago, began last week at a low of 85p.

Ares-Serono rises 19%

By William Dullforce in Geneva

ARES-SERONO, the Switzerland-based pharmaceuticals group, yesterday reported an 18.8 per cent increase in sales to $140m in the first quarter compared with the first three months of 1989.

Operating income grew by 10.2 per cent to $27.8m, but net earnings slumped by 10.6 per cent to $13m or $23.97 per share against $14.6m or $26.80 per share in the first quarter of 1989. The setback in net profit is attributed partially to foreign exchange differences of $2.2m realised mainly in Latin America and to increased financial expenses. It was also influenced by investments in the loss-making diagnostics division.

Mr Fabio Bertarelli, chief executive, said it was too early to forecast results this year. Much would depend on the US's economic development. There the group generated 28 per cent of turnover last year.

INTERNATIONAL COMPANIES AND FINANCE

Out of step means out of pocket

Paul Cheeseright on the dangers of misreading cycles within the UK property sector

Depression in the UK property sector is taking its toll. More companies are expected to follow in the steps of Rush & Tompkins, where the receiver has been called in, and Sheraton Securities, where the banks have been called upon to restructure the finances.

In general terms the companies are being hit from two sides. First, at least in south-east England, there is a natural sogginess to the market, which has switched from an undersupply of space to an oversupply. Second, the slowdown of the economy has started to turn this sogginess into a financial morass for property companies, as high interest rates have put up costs and dampened the expansion plans of their clients.

"Property works in cycles: you have got to have a view about where you are in the cycles," says Mr Michael McNair Scott, finance director of Helical Bar.

The cycles move differently for different types of property and they move differently for different regions. At Helical Bar the assumption is three good years and four bad years.

The companies in trouble now have misread the cycles or have chosen to disregard them. Because now is the time of the downside. The upside was 1986-1989, just as in previous cycles it was 1970-1973 and 1976-1979.

The cycles pay no respect to the size of companies. But the survivors are likely to have at least one of two characteristics. They will have assets producing an income stream from rents. Or they will have assured their cash position through devices like the forward sale of buildings under development or lengthy lines of credit.

The property investment companies are not under threat. This is as true for Land Securities, the UK's largest, with a rental income for the year to last March estimated at about £270m ($430m), as it is for Barlows with a 1989 rental income of £1.9m. The two have in common the fact that rental income comfortably exceeds financial charges.

Those under threat are the highly-geared property development companies. "A lot of the trouble," says Mr Peter Morgan, a director of Oldway Properties, a private Merthyr Tydfil company, "is that people expanded just for the hell of it. In small companies you've got to put the effort into detail otherwise you just don't survive."

Reckless expansion led, even as late as mid-1989, to some companies paying prices for sites that could be justified only on the assumption that demand for space would remain strong enough to stimulate a continual and sharply rising growth in rents. But rental growth of 14.7 per cent in 1987, 23.9 per cent in 1988 and 16.4 per cent – across the average institutional portfolio measured by the Investment Property Databank – could clearly not be sustained. That growth has now expired.

Given that much of the investment demand has disappeared from the property market, the financial variables in a property development have shifted against the highly-geared company. Selling prices have slipped, and the capital value of property has started to erode, at a time when the financial charges have increased. Potential 20 per cent profit margins have been sliced away. The response to such financial dangers has inevitably been defensive.

Companies like Rosehaugh, which stunned the stock market with a one-for-one rights issue to raise £125m in February, have withdrawn from some developments.

Helical Bar's reading of the cycles led it away from London development to the purchase of rent-producing industrial property in the British regions.

But its financial tactics, Mr McNair Scott explains, have had three aims. First, to maintain liquidity through the accumulation of cash and bank facilities. Second, to take out interest rate caps in order to have protection against base rate rises. Third, to work towards having bank loans on as long a duration as possible.

Regalian, originally a residential property developer, realigned its activities in 1987 in the belief that the residential market had overheated. "Almost inevitably the commercial market follows," says Mr David Goldstone, chairman.

But it moved into commercial property and sought to secure its position by selling or leasing forward three office developments. Then it sought to boost residential sales by offering a pay-half-now and half-later deal.

From these experiences three strands emerge. First is the desire not to undertake any development at all unless there is a certain sale or leasing. Second is the aim of finding a position in the market where the next growth will come from. Third is the need for cashflow to meet running commitments.

But there are companies with developments in areas with little prospect of rental or capital growth – City of London fringes, for example – and very little cashflow. The bell will toll for them. "We're all aware it's cyclical. You've got to be prudent. You've got to be lucky," says Mr Goldstone.

Andreu to resign his post as chairman of Iberia

By Tom Burns in Madrid

MR NARCIS ANDREU, who as chairman of Iberia steered Spain's national airline back into profitability, is to resign his post at the beginning of next month.

He will be replaced by Mr Miguel Aguilo, currently the head of the shipbuilding division at INI, the public sector holding, which is the main shareholder in Iberia.

The replacement comes at the request of Mr Andreu, 57, who after five years running Iberia will now take up the post of executive president of the Banco Exterior de Belgica, the Brussels-based subsidiary of the state-controlled export finance institution, Banco Exterior de Espana.

A banker by profession, Mr Andreu knows Brussels well and will also act as a personal adviser on European Community matters to the president of Banco Exterior.

At Iberia Mr Andreu presided over a remarkable turnaround in the company's finances; accumulated losses of Pta84bn ($802.67m) between 1979-84 were followed by profits of Pta51bn during 1986-89. He was also responsible for an investment programme totalling some $2.3bn to renew Iberia's fleet with McDonnell Douglas and with Airbus aircraft.

Mr Andreu's final decision at the airline company concerns a recommendation to acquire eight Boeing B-757s.

Yasuda joins Chicago bank in advisory service

By Barbara Durr in Chicago

JAPAN'S Yasuda Trust & Banking, and Masi, a private investment banking boutique in Chicago, have entered a joint venture to provide advisory services to small and medium-sized US and Japanese companies that wish to do business in the other country.

This is the first US-Japanese partnership to aim specifically at the small and medium-sized market.

Mr Thomas Smith, a principal of Masi, said the partnership would target companies with annual revenues of $10m-$150m.

Business opportunities in Japan are expected to be best for US companies in construction services, particularly engineering, and retailing.

Mr Smith said Masi's clients were eager to establish a presence in the Pacific Rim either through acquisition, license or joint ventures. He acknowledged that doing business in Japan for US companies that were not household names required a Japanese introduction and that would now be provided by Yasuda.

According to Mr Tsutomy Aizawa, director and general manager of Yasuda, the bank was motivated to locate in Chicago because Japanese automotive companies that have successfully set up in the American midwest have drawn the attention of other Japanese businesses.

There is interest in establishing not only factories but distribution centres and regional headquarters in the region, he said.

Yasuda Trust joins more than 15 other Japanese banks already in Chicago.

COMPANY NEWS IN BRIEF

■ AFRICAN OXYGEN (Afrox), British Oxygen's 58 per cent owned South African subsidiary, has shown a 28 per cent increase in trading profit to R93m ($35m) in the six months to March, Philip Gawith reports from Johannesburg.

Turnover for the group, which is involved in the manufacture and marketing of gases and welding equipment, and owns 10 private hospitals, increased 26 per cent to R438m.

Pre-tax profit grew by 16 per cent over the year ago period to R78.6m after a steep increase in interest paid. This resulted from the combination of a large capital expenditure programme and prevailing high interest rates.

■ Northam Platinum, which is developing a platinum mine in the Transvaal province of South Africa, is to raise R600m ($225.9m) net of estimated expenses of R8m by way of a rights issue, Kenneth Gooding reports.

The company, 60.4 per cent owned by the Gold Fields of South Africa mining group, said yesterday full details would be given on May 14.

So far Northam has spent R483.2m on developing its mine and a further R515m will probably be needed. The mine is expected to be in production during the 1991-92 financial year.

■ Matsuzakaya, Japan's fifth-largest department store operator, has announced that consolidated pre-tax earnings for the year to February grew by 7.0 per cent to Y12.82bn ($81m) from Y11.98bn, owing to vigorous personal consumption, AP-DJ reports from Tokyo.

Net earnings surged 80 per cent to Y9.42bn or Y60.67 a share, from Y5.24bn or Y33.71 a share. Sales amounted to Y533.58bn, up 4.8 per cent.

■ Kobe Steel, one of Japan's leading steelmakers, announced yesterday that it had chosen Mr Shinji Fukukawa, former Vice Minister of International Trade and Industry (Miti), as its vice president, Kyodo reports from Tokyo.

Mr Fukukawa, 58, served as administrative vice minister at Miti between June 1986 and June 1988.

■ Tian An China Investments, the Hong Kong hotel, property and China trade group, yesterday said its 1989 after-tax profit tumbled 61 per cent to HK$5m (US$640,000) from HK$13m a year earlier, as a result of a slowdown in business after the June 4 massacre in Peking, AP-DJ reports from Hong Kong.

Earnings per share plummeted 73 per cent to 1.04 cents from 3.86 cents a year ago, while turnover more than doubled to HK$204m from HK$92m.

■ Bengal Star, a closely-held Australian concern, is bidding 6 cents a share for all the ordinary or common shares in Bond Corporation Holdings's 64 per cent-owned mining offshoot Endeavour Resources, valuing all the target at A$11.1m (US$8.37m), AP-DJ reports from Sydney.

INTERNATIONAL COMPANIES AND FINANCE

Talks on sale of Bond's 50% university stake fail

By Kevin Brown in Sydney

MR ALAN BOND, the debt-laden Australian entrepreneur, faced a new problem yesterday after negotiations collapsed over the sale of a 50 per cent stake in the site of Australia's first private university.

Bond University, which opened a year ago on Queensland's Gold Coast, was founded by Mr Bond, and financed jointly by Bond Brewing Investments (BBI) and EIE International, a Japanese property and leisure consortium headed by Tokyo-based Mr Harunori Takahashi.

The two companies are believed to have invested around A$120m (US$90m) each in Bond University Trust, the vehicle for the development.

The university was established separately under an act of the Queensland Parliament, and was intended to be financed jointly by BBH and EIE until it was able to become self-financing.

However, the operating costs of more than A$500,000 a week have been met by EIE alone since January, when the financial problems of the Bond group became acute.

EIE said yesterday that it had offered to buy the Bond stake to guarantee the future of the university but had pulled out of negotiations because of the high valuation placed on the stake by BBH.

No figures were released, but BBH is understood to have valued its holding at A$120m – equal to its investment in the project. EIE is understood to have been prepared to offer a maximum of A$50m, partly because it would have to sell the holding to an Australian company because of Australia's foreign investment regulations.

EIE said: "No firm offers were made, but it became clear after preliminary discussions that Bond regarded the level we were prepared to offer as impudent because they want their full investment out. Our position is that if we were buying their stake on a custodial basis with a view to selling it on we would have to take a view on the price we could persuade a new buyer to pay."

EIE has agreed to continue to fund the university until June 30. In the meantime, it hopes to persuade the Bond group to provide some short-term financing. One option was that the Bond holding could be used as collateral for loan funding if it could be quarantined from the rest of the group. Alternatively, the Bond equity could be transferred gradually to EIE to reflect its provision of short-term finance.

The collapse of negotiations comes at an awkward time for the university, which will award degrees on Sunday to the first nine graduates of its one-year MBA course. A further 900 undergraduates will restart their studies next week.

The university said it was convinced the future of the institution was safe, but acknowledged that "a lot of people feel threatened" by the financial uncertainty.

AMP 'will not block' ANZ deal

By Kevin Brown

THE AMP Society, Australia's largest life office, yesterday said it would not try to block a proposed merger between ANZ Bank and National Mutual Life Association, its biggest competitor, by calling an extraordinary meeting of ANZ shareholders.

However, Mr Ian Stanwell, AMP managing director, refused to say whether AMP would vote for the merger if an extraordinary meeting were called by other shareholders.

AMP, Australia's largest institutional investor, owns 6 per cent of ANZ.

Mr Stanwell said AMP had no plans for closer links with the banking sector beyond its 50 per cent interest in Chase AMP Bank, a joint venture established five years ago with Chase Manhattan Bank.

But he said AMP would keep its strategy under review because of the rationalisation which was under way in the Australian life insurance industry.

In addition to the proposed ANZ merger with National Mutual, MLC Life plans to acquire the Capita Group.

Australian Ratings, the credit rating agency, yesterday said it was putting ANZ on credit watch for a possible downgrading from its current AA rating – its second highest – for long-term debt, because of the merger proposal.

Mr Bill Chambers, Australian Ratings' managing director, said there was no evidence that ANZ planned to raise additional equity to finance the A$3.4bn (US$2.57bn) costs of the merger.

He said that there were positive aspects to the proposals, but the deal would have negative implications for ANZ's credit rating if it went ahead.

Mr Greg Camm, ANZ's general manager for investor relations, said the ratings company's move was a routine reaction to a major development.

● Pearl Group, the UK life office acquired by AMP last year for A$2.37bn, is valued at A$2.21bn in the society's accounts published yesterday.

Mr Ian Salmon, chief general manager for international business, said the book price had been determined by independent actuarial valuation. "The difference of A$160m is pretty small, and we expect to be able to do things with the Pearl which will raise that [valuation] pretty quickly," he said.

AMP said it had no plans for further overseas acquisitions this year. The society operates in Australia, New Zealand and the UK.

OK Bazaars profits squeezed

By Philip Gawith in Johannesburg

A COMBINATION of difficult retail conditions and political instability hit the profits of OK Bazaars, one of South Africa's three largest supermarket chains, in the year ended March 31.

Turnover increased 13.2 per cent to R4.22bn ($1.58bn), but abnormally large shrinkage losses and a higher interest bill saw operating income only 1.9 per cent up at R68.4m.

Although the turnover figure lags behind the inflation rate, it is in line with those of its main competitors. The group was particularly hard hit in the second half of the year.

The higher interest bill and tighter margins saw earnings attributable to shareholders decline 15.5 per cent to R30.2m. Earnings per share were down to 168 cents from 195 cents and the final dividend was 16.5 per cent lower at 86 cents from 103 cents.

The directors anticipate difficult trading conditions in the year ahead, with consumers' disposable income remaining under pressure.

But they are confident that improved stock turnover, which reached a record 6.1 in the past year, and tighter cost controls, backed by the introduction of a centralised warehousing system in the grocery section, should allow earnings to rise.

In the year under review higher interest rates dampened consumer spending and also saw the group's interest bill increase by 40 per cent.

This figure was inflated by the inclusion of the purchase of more advanced computer equipment on financial lease.

Mr Gordon Hood, managing director, said the surge in political unrest in recent months had led to unusually high squeezes in areas such as the Vaal Triangle, Pietermaritzburg and parts of Bophuthatswana.

Misc plans to raise M$563m in rights issue

By Lim Siong Hoon in Kuala Lumpur

MALAYSIAN International Shipping Corp (Misc), the country's largest shipping line, has proposed a one-for-four rights issue to raise M$563m (US$207.7m) for an expansion programme during the next two years.

Misc also said foreign-held shares, representing a 30 per cent stake in the group, will be quoted separately from June 1.

Misc's charter, the articles of association, restricts foreign equity shareholding in the group to 30 per cent; this ceiling was reached last June. Since then foreign investors have had to wait for shares being sold by existing foreign stockholders.

Accompanying the cash call is a one-for-four bonus issue. The two issues combined would lift Misc's share capital by 50 per cent, from M$500m to M$750m. The rights allocation is to be made at M$4.50 a share, less than half the last traded price of M$9.10.

The group, which just reported M$461m pre-tax profit on a turnover of M$1.6bn for last year, has more than M$1bn in term loans and a 1:1 debt-to-equity ratio, down from 1984's level of 22:1.

Misc has been contemplating the replacement of some of the old bulkers and liners in its 42-vessel fleet.

Misc said M$400m was needed to acquire new vessels, and another M$200m to expand its warehousing and container operations. It is also negotiating to take a stake in Malaysia Shipyard Engineering, a state-owned ship maintenance and repair facility which is to be privatised.

Coles Myer sales increase to A$3.4bn

COLES MYER, Australia's biggest retailer, yesterday unveiled a 5.4 per cent rise in sales to A$3.40bn (US$2.56bn) for the third quarter ended April 29, from A$3.23bn a year earlier, AP-DJ reports from Melbourne.

Cumulative sales for nine months rose 5.2 per cent to A$11.12bn from A$10.57bn.

Mr Brian Quinn, chairman and chief executive, said the company's food and liquor operations performed well, as did the discount supermarket and department-store chains and New Zealand businesses.

Mr Quinn said the overall sales increase for the latest quarter was "satisfactory given the high interest-rate climate and the prevailing economic conditions."

He said other factors to hit sales included the March national election campaign in Australia, transportation disputes and flooding in eastern Australia. He described retail sales as generally "depressed."

All-clear given BIL to take NZ Telecom stake

BRIERLEY Investments (BIL), the New Zealand investment company, has gained clearance from the Anti-Trust Commerce Commission to buy a majority stake in Telecom Corporation, the state owned telecommunications utility, Reuter reports from Wellington.

Mr Bruce Hancox, the chairman, said the company is in the last stages of examining the accounts.

The Government is seeking bids for Telecom Corp as part of its state asset sales programme designed to raise funds to repay domestic public debt.

Foreign ownership in Telecom Corp will be limited to 49.9 per cent and BIL is seen as the only local company willing and able to pay the price for Telecom, which has an estimated total market value of NZ$3bn (US$1.7bn) to NZ$4bn.

Mr Hancox said BIL was keeping an open mind on what form a bid might take. "We are totally flexible on that," he said. "We are aware of many interested parties and many ways of going about it."

Brierley has not said how much of Telecom it would seek to acquire.

Nagasakiya posts advance of 5.5%

NAGASAKIYA, the Japanese chain store group, yesterday announced a 5.5 per cent rise in consolidated pre-tax profits for the year to February to Y8.41bn ($5.31bn) from Y7.97bn a year earlier, AP-DJ reports from Tokyo.

Net income dropped 0.7 per cent to Y4.59bn or Y31.49 a share, from Y4.62bn or Y31.72. Sales came to Y458.31bn, rising 10.6 per cent from Y414.22bn a year earlier.

Sales of clothing accounted for 26 per cent of total sales.

INTERNATIONAL CAPITAL MARKETS

Medium-lot deals escape Tokyo's commission cuts

By Robert Thomson in Tokyo

THE Tokyo Stock Exchange has circulated plans to cut brokerage commission rates on small and large lot transactions by 7 per cent, while medium-lot commissions will remain unchanged in a small victory for foreign securities houses.

Foreign houses, which tend to deal in the medium range, suggested to the exchange that a reduction would be unreasonable following the market slump this year, but they had feared an average cut by as much as 10 per cent.

"It should be said that brokers don't like any cuts in commission, but, under the circumstances, the exchange has done a very good job," one foreign broker said.

The exchange is expected to discuss the proposed changes at a meeting of its membership committee tomorrow and at a board meeting next week, but a Japanese broker said that the average 7 per cent cut in commissions is "almost certain" to be approved and is likely to be introduced next month.

Under the plan, commissions on transactions of between Y50m and Y30m will fall to 0.35 per cent from 0.40 per cent, with the 0.05 per cent cut continuing down to the smallest trades, which are generally handled by the retail outlets of Japanese securities houses.

Commissions on trades of Y50m to Y100m and from Y100m to Y300m will remain at 0.25 per cent and 0.2 per cent respectively, while those on transactions between Y300m and Y500m will fall from 0.20 to 0.15 per cent, and between Y500m and Y1bn from 0.20 to 0.10 per cent, the rate for lots above Y1bn.

Late last year, rumours circulated in the Tokyo market that the commissions cut could be as high as 15 per cent, but the low turnover levels and plunging prices this year prompted the TSE to aim for a smaller reduction than the 9.8 per cent cut made in October 1987 and the 9.1 per cent cut in November 1986.

Small Japanese securities houses are known to be annoyed that the foreign houses appear to have successfully lobbied the TSE, while their requests for no reduction in small-lot commissions were ignored.

Foreign houses do not have the retail networks that are a prime source of small-lot revenue for Japanese companies.

An executive at a British brokerage said that late last year Japanese securities houses were openly criticised for earning too much, but their profit prospects have been dulled by the volatile market this year and the pressure for large commission cuts has eased.

"The spread of commissions will be much smoother with the new cuts. We don't want to say too openly that we have been well treated. The Japanese commission rates remain higher than overseas markets, but you can't make a direct comparison," the executive said.

Another foreign broker said that a large cut in medium-lot commissions would have made life very difficult for some foreign companies and "it would have been embarrassing for the TSE if the only securities houses losing money were foreign.

"Commissions should be higher in Tokyo than in New York or London because the cost of doing business here is higher. It is right that you should pay more here. It's like trying to compare the cost of a pizza in the Ginza to a pizza in Piccadilly," the broker said.

Chiquita plans $130m placing

By Vanessa Houlder

CHIQUITA Brands International, the world's largest distributor of bananas formerly known as United Brands, is broadening its international shareholder base through a $130m placing.

American Financial Corporation, the conglomerate headed by Mr Carl Lindner, the financier, will reduce its holding in Chiquita from 81.3 per cent to 65.5 per cent, as a result of the sale of 5.18m shares by its 85 per cent-owned subsidiary, Great American Communications Company (GACC). In addition, Chiquita is selling 1m shares.

About 40 per cent of the shares are being offered outside the US.

The company estimates it has a 35 per cent share of the world's banana market, followed by Castle & Cook, which has the Dole brand, and Polly Peck International, with the Del Monte brand. It has expanded its fresh fruit and vegetable operations and moved further into prepared foods.

The company is hoping to develop opportunities in eastern Europe and build its business in the Middle East and Japan.

The proceeds received by Chiquita will be used to replenish its corporate funds after its purchase of 2m of its shares from GACC earlier this year.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on May 8

US DOLLAR STRAIGHTS; DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; OTHER STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS

[illegible]

* No information available-previous day's price

† Only one market maker supplied a price

[illegible]

Dutch fund group sets up bank in Switzerland

By William Dullforce in Geneva

ROBECO, the Dutch group which operates Europe's third largest investment fund business with assets of about $22bn, is setting up a bank in Switzerland as part of plans to broaden its client base internationally.

By establishing Banque Robeco (Suisse), the group was making a strategic move in an entirely new direction, Mr Willem Engelberts, chairman of the bank and executive director of Robeco, said yesterday.

Robeco, the only non-bank among the top 10 private fund groups in Europe, had to be more aggressive in presenting itself to the world and needed to offer international investors banking services as well as placements in its funds, he said.

Banque Robeco (Suisse) will offer customers current and deposit accounts, money market placements and collateral credits. Initially, money market deposits on a fiduciary basis, which avoids Swiss withholding tax, are being offered in seven currencies for periods of up to one year.

The minimum deposit is $25,000, which is lower than that accepted by many other Swiss banks. The bank will lend customers up to 70 per cent of their holdings in Robeco's equity funds and up to 80 per cent of their holdings in the bonds and property funds.

Robeco's new bank will allow it to market its funds directly in West Germany, from which it has been excluded by a law restricting the operations of foreign-based investment funds.

Mr Engelberts said the bank and distribution centre for the Robeco funds in Geneva was "80 per cent aimed at European clients." But, with an eye on South America, the group had set up representative offices in Montevideo and Curacao. A distribution centre had been established in Paris in 1988 but all other offices outside the Netherlands will work under Geneva.

Currently, roughly 60 per cent of investments in the Robeco group are generated in the Netherlands. Internationally Robeco is competing for a different type of investor; the average holding in its funds placed through the old Geneva finance company is about 10 times as large as the average Dutch holding.

Foreign banks 'to withdraw from Australia'

ABOUT half the 16 foreign banks in Australia will quit in the next five years, predicted Mr Rob Ferguson, the managing director of Bankers Trust Australia, yesterday, Reuter reports.

He told a bank industry conference that northern hemisphere banks would increasingly question the need to be involved in low return markets such as Australia.

"Foreign banks were the cannon fodder of [finance industry] deregulation. It was their role to create competition," he said.

But, like most frontline troops, they never really had a chance against the established big four local banks, he said.

"Given the near impossibility of them making a return in Australia and the mounting pressure on many northern hemisphere banks in their home bases from loan losses, I believe most northern hemisphere banks will ultimately withdraw from Australia," Mr Ferguson said.

He added that the rapid build-up of foreign banks in Australia after deregulation in 1985 set a cracking pace for competition.

"Under these circumstances banks, to their present regret, began allocating credit without due regard to risk."

S Korea curbs volatile market

SOUTH Korea has taken steps to curb stock-market volatility, Reuter reports.

The measures include the formation of a $100m offshore fund for foreign investors, an increase in the domestic stock market investment fund and a reduction in the securities transaction tax to 0.2 per cent from 0.5 per cent.

Finance Ministry officials said the offshore fund, tentatively called the Korea Asia Fund, would be set up for Asian and Pacific investors. A market stabilisation fund already set up by securities companies would be doubled to 4,000bn won.

Plans to sell off shares in state-owned or partially state-owned companies will be delayed until the market stabilises.

INTERNATIONAL CAPITAL MARKETS

US Treasuries firm ahead of three-year auction

By Janet Bush in New York and Deborah Hargreaves in London

YIELDS on US Treasury bonds slipped yesterday morning ahead of the sale of $10.5bn of three-year notes as the market bathed in the optimistic aftermath of last Friday's weaker than expected April employment statistics.

GOVERNMENT BONDS

At midsession, the 8.375 per cent issue due to mature in 1993 was quoted ⅛ point higher to yield 8.74 per cent while the Treasury's benchmark long bond stood ¼ point higher to yield 8.81 per cent.

The mood going into the three-year sale was optimistic. Substantial demand is expected for these short-dated maturities because, although yields are not as attractive as the 9 per cent plus levels seen before Friday's rally, they have risen significantly so far this year.

Maria Ramirez Capital Consultants, the fixed income analyst, said the three-year looked relatively cheap to Fed funds because short rates had risen quite a bit in the last two months, pricing in several Fed tightenings which have not materialised.

Non-competitive bids from individual investors are generally expected to exceed the $1.2bn received at the last three-year auction at the February refunding. The talk on Wall Street yesterday was that Japanese investors were likely to take between 25 per cent and 30 per cent of the auction.

Due to the attractive yields on short-term bonds, the results of the three-year auction may not prove too significant a signpost to potential demand at today's $10bn 10-year note sale and tomorrow's $10bn auction of 30-year bonds.

■ THE UK Government bond market experienced profit-taking after Friday's surge in prices. At the end of the day, gilts were virtually unchanged from a slightly lower opening.

The benchmark 11¾ per cent 2003/07 Government bond closed ½ point lower at 97½ after rising by 2⅜ points on Friday when the market drew relief from the local election results. But by yesterday inflation concerns had started to re-assert themselves.

A £250m Eurosterling issue of bonds for Gefco also helped weaken gilts prices slightly as the market digested the increase in supply of medium-term paper. Gilt futures on Liffe saw a large rise in activity to over 37,000 lots.

■ A FIRMER tone returned to the German bond market yesterday as a strong D-Mark and last week's pay settlement by the IG Metall union buoyed investor confidence in bunds. The 7¾ per cent 10-year bund was fixed almost 40 pfennigs higher at 95.30 with a yield of 8.46 per cent after a level of 94.98 yielding 8.52 per cent on Monday.

The market was fairly volatile as activity in the futures contract soared passed 60,000 lots. The March rise in new orders for manufacturing industry was released yesterday indicating a year-on-year increase of 3.5 per cent. This introduced a note of caution into the market.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		10.000	4/93	91-26	-1/32	13.43	13.83	13.16
		10.500	5/99	88-16	-13/32	12.68	13.12	12.29
		9.000	10/08	81-00	-14/32	11.49	11.96	11.29
US TREASURY *		8.500	02/00	97-24	+3/32	8.85	9.06	8.52
		8.500	02/20	96-16	+5/32	8.83	9.03	8.49
JAPAN	No 119	4.800	6/99	88.4516	+0.192	7.27	7.43	7.28
	No 2	5.700	3/07	89.5964	+0.070	7.05	7.17	7.28
GERMANY		7.750	02/00	95.0000	-0.060	8.51	8.80	8.54
FRANCE	BTAN	9.000	02/95	97.1463	-0.035	9.75	9.99	9.98
	OAT	8.500	03/00	93.8900	-0.160	9.47	9.65	9.54
CANADA *		9.750	05/00	91.0500	+0.595	11.27	11.66	11.46
NETHERLANDS		7.750	01/00	92.4900	-0.310	8.92	9.02	8.81
AUSTRALIA		12.000	7/99	91.8246	-0.241	13.83	13.69	13.43

London closing, *denotes New York morning session
Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

Crédit Agricole links with US company

By David Lascelles, Banking Editor

CREDIT Agricole, France's largest bank, is teaming up with Alliance Capital Management, one of the leading US fund management companies, to tackle the European market.

The two companies, which between them control nearly $100bn worth of investment funds, are forming a joint venture company which will sell investment services to an institutional clientele.

Mr David Williams, Alliance's chairman, said yesterday that his company had been keen to enlarge its non-US business, and it had found in Crédit Agricole a bank which was compatible and shared similar objectives.

Ms Monique Bourven, deputy general manager of Crédit Agricole and director of its investment management arm, said the bank was seeking new markets for its investment services beyond the retail market where it was strong. She said the bank had chosen a US rather than a European partner because this would give it a stronger competitive edge.

The new venture, which will be based in London, will have two chief executives, one representing each partner. Its name has not yet been chosen.

The two partners said they hoped it would become the basis for wider co-operation.

Chase lifts custody accounts to $100bn

By Andrew Freeman

CHASE Manhattan, the US commercial bank, announced two significant global custody appointments in the UK market, making it the first bank to have assets under custody of more than $100bn.

The new business consists of global custody accounts for the overseas assets of the Standard Life and Sun Alliance insurance groups.

The bank now has some $112bn under custody in its global securities services division – custodians handle trade settlement, reporting and portfolio administration for clients in return for a fee.

Chase is taking charge of the custody of around £2.25bn of Standard Life's £20bn of assets, representing its overseas investments in the US, Far East and Europe.

A Standard Life official said that the portfolios consisted almost entirely of equities, some directly invested and others invested via unit trusts servicing the company's unit-linked policies.

He said the appointment followed a regular review of Standard Life's investment administration.

Chase replaces Bank of Montreal as custodian.

Sun Alliance said its appointment was made after a seven-month review to rationalise a custody operation which had more than ten banks looking after overseas investments.

The assets, which will be transferred in June, will be in two portfolios, a $1.3bn US portfolio and a £400m non-US global account.

Sun Alliance's UK assets are administered in-house.

The appointments suggest that US banks are still making strong progress in the UK custody market, in spite of the efforts of domestic banks to market more efficient services.

Chase is also understood to be negotiating to become the trustee to Standard Life's £5bn of unit trusts, a move which would be a natural extension to the custody business.

Liffe plans Lire-based contracts

By Haig Simonian in Milan

THE London International Financial Futures Exchange (Liffe) is planning contracts based on a three-month Eurolire deposit and a notional Italian government bond.

The timing of their introduction has yet to be settled, pending fiscal and regulatory changes in Italy. However, the first lire contract may start trading well before the end of the year.

"We are examining lire products and have discussed this with a number of members. But we are not yet at a point where we are ready to make a statement," said Mr Michael Jenkins, Liffe's chief executive, yesterday.

Specifications for the three-month Eurolire, which is cash-settled and has no delivery problems, are ready, following some months of discussions between participants.

Considerable work is still required on the bond future, which is likely to face the sort of problems which emerged when Liffe initially drew up its popular German government bond contract. Trading in bund futures and options amounted to some 800,000 contracts last month, one third of Liffe's total volume.

Bankers in Milan view the three-month Eurolire deposit as the more important of the two projects, despite the size of the Italian government bond market, one of the biggest in Europe.

However, a successful Italian government bond future still needs the creation of an underlying long-term bond. At present, the longest maturity for fixed rate government paper is four years, with only floating-rate instruments stretching to the requisite 10-year lifespan.

There are also sticking points to the introduction of the Eurolire deposit, the most important being the abolition of withholding tax on interbank deposits.

However, many bankers are confident that the tax will shortly be abolished as part of a supplementary budget which may be introduced as early as next month.

A number of other Italian banks are also believed to have supported the contracts, notably Istituto Bancario San Paolo di Torino. The Bank of Italy is also thought to have responded positively.

Liffe will have its own first direct contact with Rome early next month.

Active day sees issues in nine currencies

By Andrew Freeman

A BUSY day for new issues on the Eurobond market saw deals in nine currency sectors. However, trading conditions were aptly described by one syndicate manager as "whippy," with volatile government bond markets making the underwriting of Eurobonds more than usually risky.

INTERNATIONAL BONDS

Barclays de Zoete Wedd and S.G. Warburg were the joint lead managers of a £250m 12-year issue for Guaranteed Export Finance Corporation (Gefco) which had a strong reception as UK institutions snapped up bonds at the launch spread of 40 basis points over the equivalent gilt.

The paper traded at a premium of ¼ point to the 99.406 issue price, before settling lower in line with the gilts market and closing at 99¼ bid for a spread of 39 basis points. Lloyds Bank provided a swap into floating-rate sterling.

Rival syndicate managers said the timing of the deal was impeccable. The proceeds met the borrower's present funding requirements and Gefco's next issue is expected to be at a different maturity.

In West Germany, a five-year DM300m floating-rate note was issued by Commerzbank for Kingdom of Belgium paying ⅛ point below six-month London interbank offered rate. The notes had a reasonable reception amid mainly foreign retail demand, and were quoted by the lead manager at 100 bid, a discount equivalent to full fees.

There was some comment that the pricing was tight, but Commerzbank said the short maturity justified the terms.

Ford Motor Credit Canada surprised the market with a C$100m unswapped five-year deal launched late in the day via Wood Gundy. The bonds were priced at 101.70 with a 13¼ per cent coupon to yield 95 basis points over the equivalent Canadian Treasury.

The issue came on the back of the strong recent rallies in the Canadian bond market and met a mixed reception from syndicate officials. Some said the pricing was tight against the recent successful IBM deal brought by Credit Suisse First Boston which was trading at a spread of around 75 basis points. Others compared the bonds favourably with outstanding Ford and GMAC paper, but said it left little on the table for underwriters. Towards the close, the price slipped outside fees at less 1.95 bid, in line with the government market.

A L200bn five-year issue for the European Coal and Steel Community was launched by Banco di Roma and Cariplo to a steady, but quiet reception. The bonds carried a 12¼ per cent coupon and were quoted on fees at less 1¾ bid.

In Switzerland, the SFr150m 7½ per cent General Electric Capital Corporation issue launched on Monday by Union Bank was trading steadily inside fees at less 1½ bid. The bonds were considered aggressively priced, but retail investors welcomed the chance to buy non-bank paper.

A debut SFr125m 10-year issue for Société Quebecoise d'Assainissement des Eaux, the water purification company, was brought by Wirtschafts-und Privatbank with a 7¼ per cent coupon. The deal met a steady reception and was quoted inside co-managers' fees at less 2¼ bid.

BZW announced a fungible A$50m issue for its Australian finance subsidiary. The paper, launched at a discount to the existing A$75m bonds, was quoted on fees at less 1¾ bid.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
STERLING						
Gefco(a)◆	250	12⅞	99.406	2002	22½bp	BZW
CANADIAN DOLLARS						
Ford Motor Credit Canada(a)◆	100	13¼	101.70	1995	1⅞/1¼	Wood Gundy
LIRE						
E'pean Coal & Steel Comm(a)◆	200bn	12¼	101.30	1995	1⅞/1¼	Banco di Roma
D-MARKS						
Belgium, Kingdom of(b)‡◆	300	-⅛	100.10	1995	10/5bp	Commerzbank
SWISS FRANCS						
General Elec.Cap.Corp.(a)◆	150	7½	102	1995	1½	UBS
Ste.Quebec.d'Ass.des Eaux(a)◆	125	7¼	101¼	2000	2¼	Wirtschafts-und Privatbk.
AUSTRALIAN DOLLARS						
Barclays A'trala Int.(c)◆	50	15	101.35	1993	1⅞/1	BZW
NEW ZEALAND DOLLARS						
Soc.Generale Australia(a)◆	60	13¾	101.96	1992	1¼/⅞	Hambros Bank
YEN						
PKbanken(d)◆	10bn	6⅝	100⅝	1992	1⅛/⅝	Mitsui Trust Int.
LKB Baden-Wuerttemberg(a)◆	5.5bn	6⅝	100.3425	1992	1⅛/⅝	IBJ Int.
FINNISH MARKKA						
Export Dev.Corp.(Canada)(a)◆	300	13¼	101⅛	1993	1⅛/⅞	Postipankki

‡Floating rate notes. ◆Final terms. a) Non-callable. b) Coupon pays ⅛ under 6-month Libor. Non-callable. c) Fungible with existing A$75m issue launched in January. Issue price plus accrued interest. d) Unlisted.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS. Figures in parentheses show number of stocks per section

	Equity groups & sub-sections	Tuesday May 8 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Fri May 4 Index No.	Thu May 3 Index No.	Wed May 2 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (199)	828.93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	961.13
2	Building Materials (27)	1015.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1206.11
3	Contracting, Construction (36)	1295.77	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1717.99
4	Electricals (10)	2358.70	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2870.93
5	Electronics (29)	1764.29	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2206.44
6	Engineering-Aerospace (8)	445.61	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.00
7	Engineering-General (43)	457.96	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.00
8	Metals and Metal Forming (6)	470.21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	541.39
9	Motors (16)	342.18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	317.09
10	Other Industrial Materials (24)	1503.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1603.93
21	CONSUMER GROUP (178)	1187.34	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1206.59
22	Brewers and Distillers (21)	1396.19	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1334.71
25	Food Manufacturing (20)	1029.31	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1048.23
26	Food Retailing (16)	2253.54	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2184.19
27	Health and Household (13)	2458.28	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	2257.42
29	Leisure (32)	1322.88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1638.89
31	Packaging & Paper (13)	548.50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	577.53
32	Publishing & Printing (16)	3171.78	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3568.50
34	Stores (35)	725.13	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	781.27
35	Textiles (12)	458.03	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	531.35
40	OTHER GROUPS (105)	1089.43	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1081.50
41	Agencies (17)	1162.39	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1326.28
42	Chemicals (23)	1177.08	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1231.30
43	Conglomerates (14)	1514.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1573.03
44	Transport (13)	2116.71	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
46	Telephone Networks (2)	1080.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47	Water (10)	1878.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48	Miscellaneous (26)	1695.98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49	INDUSTRIAL GROUP (482)	1080.31	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
51	Oil & Gas (18)	2222.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
59	500 SHARE INDEX (500)	1175.36	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61	FINANCIAL GROUP (110)	767.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62	Banks (9)	825.15	+0.8	19.98	6.51	6.56	24.92	818.28	794.82	797.53	736.53
65	Insurance (Life) (7)	1269.09	+1.2	–	5.79	–	36.94	1254.42	1229.98	1229.89	1069.81
66	Insurance (Composite) (7)	644.22	+1.0	–	6.42	–	19.43	637.96	627.22	628.09	595.05
67	Insurance (Brokers) (7)	1072.43	+1.6	8.00	6.07	16.49	27.41	1055.40	1041.18	1041.97	956.44
68	Merchant Banks (7)	418.35	+0.2	–	4.55	–	4.85	417.48	409.48	407.46	334.20
69	Property (48)	1063.03	+0.7	8.32	4.23	15.31	8.07	1055.23	1058.60	1061.20	1327.72
70	Other Financial (25)	299.61	+0.7	14.87	7.45	8.81	4.23	297.43	295.22	294.75	373.27
71	Investment Trusts (67)	1144.18	+0.4	–	3.34	–	9.53	1139.28	1130.83	1128.03	1138.97
91	Overseas Traders (5)	1294.99	+0.3	9.52	7.05	12.86	42.87	1291.61	1273.58	1282.38	660.861
99	ALL-SHARE INDEX (682)	1076.89	+0.8	–	5.02	–	14.48	1067.95	1056.31	1057.17	1361.53

	Index No	Day's Change	Day's High (a)	Day's Low (b)	May 4	May 3	May 2	May 1	Apr 30	Year ago
FT-SE 100 SHARE INDEX‡	2182.0	+19.8	2192.3	2173.3	2162.2	2134.9	2137.6	2117.9	2103.4	1091.94

FIXED INTEREST

	PRICE INDICES	Tue May 8	Day's change %	Fri May 4	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	113.16	+0.39	112.74	0.02	4.63
2	5-15 years	116.17	+0.17	115.98	–	4.96
3	Over 15 years	119.81	+0.17	120.21	0.61	4.77
4	Irredeemables	134.87	–0.06	134.95	–	6.12
5	All stocks	117.23	+0.24	117.03	0.08	4.88
	Index-Linked					
6	Up to 5 years	143.20	+0.36	142.68	–	1.49
7	Over 5 years	134.88	....	134.89	–	1.38
8	All stocks	135.40	+0.03	135.36	–	1.38
9	Debentures & Loans	94.29	+1.10	93.27	–	3.30
10	Preference	73.76	–0.13	73.86	–	2.07

	AVERAGE GROSS REDEMPTION YIELDS		Tue May 8	Fri May 4	Year ago (approx.)
	British Government				
1	Low Coupons	5 years	12.04	12.11	9.61
2		15 years	11.38	11.39	9.21
3		25 years	11.22	11.27	9.04
4	Medium Coupons	5 years	13.07	13.18	10.65
5		15 years	11.93	11.92	9.64
6		25 years	11.44	11.43	9.20
7	High Coupons	5 years	13.17	13.29	10.76
8		15 years	12.24	12.23	9.85
9		25 years	11.75	11.70	9.39
10	Irredeemables†		11.32	11.31	9.03
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.45	4.58	3.51
12	Inflation rate 5%	Over 5 yrs.	4.10	4.10	3.57
13	Inflation rate 10%	Up to 5 yrs.	3.47	3.60	2.60
14	Inflation rate 10%	Over 5 yrs.	3.93	3.93	3.41
15	Debs & Loans	5 years	16.02	14.86	12.10
16		15 years	13.89	13.90	11.50
17		25 years	13.66	13.89	11.06
18	Preference†		12.59	12.57	10.18

‡Opening index 2173.3; 9 am 2182.6; 10 am 2181.2; 11 am 2184.0; Noon 2192.3; 1 pm 2189.2; 2 pm 2188.8; 3 pm 2184.9; 4 pm 2183.7; 4.10 pm 2183.6; (a) 12.00am (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	66	22	11
Corporations, Dominion and Foreign Bonds	7	1	16
Industrials	457	258	869
Financial and Properties	220	107	412
Oils	23	37	30
Plantations	0	0	10
Mines	61	30	71
Others	83	72	92
Totals	917	527	1,511

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
§125	F.P.	–	128	110	ABI Leisure 10p	113		R4.7	3.3	5.5	7.4
125	F.P.	–	125	125	Amerocean Energy 10p	125		–	–	–	–
–	F.P.	–	206	195	Argos 10p	197	+1½	15.5	3.0	3.7	9.6
§50	F.P.	–	50	47	Castle Cairn Inv.	47		–	–	–	–
–	F.P.	–	13	13	Do. Warrants	13		–	–	–	–
–	F.P.	–	4¼	¼	Courtwell Group Wrrnts.	¼		–	–	–	–
100	F.P.	–	97	91	Dartmoor Inv. Tst. 10p	91	–1	K9.8	–	14.3	–
‡	F.P.	–	148	119	F & C Germany Inv. Tst.	125		–	–	–	–
–	F.P.	–	64	48	Do. Warrants	52	+1	–	–	–	–
–	F.P.	–	46	31	First Philipe. Inv. Tst.	32		–	–	–	–
–	F.P.	–	22	10	Do. Warrants	14	+1	–	–	–	–
–	F.P.	–	14	7	Fisher (Albert) Wrrts.	8		–	–	–	–
100	F.P.	–	98	95	Fleming Euro Fledgling	96		–	–	–	–
–	F.P.	–	40	23	Do. Warrants	35	+1	–	–	–	–
500	F.P.	–	98	95	French Property Tst	97		–	–	–	–
500	F.P.	–	39	32	Do. Warrants	37	+2	–	–	–	–
§70	F.P.	–	63	46	♦LEICA 5p	57	+1	–	–	–	–
†	F.P.	–	203	203	Northern Investors £1	203xr		Na8.0	1.0	5.3	–
$100	F.P.	–	108	105	QS Hldgs. 10p	106		L3.75	2.1	4.7	11.7
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price £	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990 High	1990 Low	Stock	Closing Price p	+or -
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TRADITIONAL OPTIONS

- First Dealings May 8
- Last Dealings May 18
- Last Declarations Aug. 2
- For settlement Aug. 13

For rate indications see end of London Share Service

Calls in Atlantic Res., Colorol, Tusker Res., Control Securities, Ivernia West, Kelt Energy and Palmer Group. Put in T. Cowie. Put and call in T. Cowie.

LONDON TRADED OPTIONS

Brisk trade in the FT-SE 100 index yesterday boosted turnover in the traded options market, and accounted for nearly two thirds of all business. In equity futures, dealing was also active as an early rally was later capped by selling related to FT-SE options.

Total options dealing stood at 38,184 contracts, compared with 39,325 in the previous session. Yesterday's turnover was divided between 24,978 calls and 13,206 puts.

FT-SE index options predominated, with 25,053 having changed hands, and the May 2,200 calls the most active, as 5,414 traded. Yesterday's total was divided between 16,991 calls and 8,062 puts.

Hoare Govett was involved in a lot of the deals, with business relating to the closure of its marketmaking operations only accounting for some of its activity. The bulk of its deals were conducted through its agency brokerage.

Hoare sold 2,500 May 2,150 calls and bought 2,500 May 2,150 puts. It also bought 1,000 June 2,200 puts at 62p and sold a total of 4,000 May out-of-the-money calls throughout the day.

Sheppards were also busy, and were said to have bought 1,000 June 2,200 calls, while S. G. Warburg was reported to have been an active seller of May 2,200 calls.

The heavy trading in FT-SE options rippled through into the futures market capping an early rally. The marketmakers that bought the FT-SE options hedged themselves in the futures market by selling. This caused the June FT-SE contract to fall back to closing premium of 27 points over the cash index.

Earlier in the day, the futures market had led the cash market higher, when a 33 point premium was established.

The equity options were quiet and provided little direction to the underlying stocks. British Aerospace traded a total of 927 contracts, divided between 490 puts and 437 calls.

British Telecom was in second place, with 734 having traded. Calls accounted for 378 and puts 356 contracts.

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Alld Lyons (*431)	390	44	60	70	5½	10	13
	420	24	42	51	18	21	24
	460	9	23	31	48	50	51
ASDA (*99)	90	15	17	20	3	5½	6½
	100	7½	10½	15	7	8½	9½
	110	3½	6	–	14	16	–
Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Brit. Airways (*196)	180	19	25	29	5½	5½	7½
	200	6	14	17	12	14	16
	220	2	6	10	29	30	31
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Unilever (*642)	600	65½	89½	106	6	10½	14½
	650	38½	55½	73½	23½	29	32½
Ultramar (*332)	330	23	35	47	13	18	22
	340	9	21	32	33	35	35
Option		Calls May	Calls Aug	Calls Nov	Puts May	Puts Aug	Puts Nov
Brit Aero (*509)	500	20	42	56	10	18	27
	550	3	21	32	45	45	55
BAA (*369)	360	33	42	55	2½	8	11
	390	7½	22	34	10	17	22
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Option		Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
Barclays (*540)	500	16	32	50	20	32	33
	550	16	32	50	20	32	33
Blue Circle (*210)	200	16	26	31	5½	6½	8
	220	5	12	20	14	16	19
British Gas (*205)	200	10	13	20	5½	9½	12
	220	2	5	11	16	22	24
Dixons (*126)	120	13	18	22	7	9	13
	130	8½	13	17	12	16	19
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK COMPANY NEWS

Large rise in capital expenditure cuts tax charge and helps earnings

Parkland Textile falls to £2.04m

By Alice Rawsthorn

PARKLAND TEXTILE, the Bradford-based wool textile group, yesterday became the latest casualty of the slump in the textile industry by announcing a fall in pre-tax profits from £2.57m to £2.04m on turnover which rose from £54.47m to £55.8m in the year to March 2.

Mr Paul Hanson, assistant managing director, said the group had emerged from a very tough year when its weaving division had suffered from the downturn in the UK clothing industry. He said trading conditions were still very difficult, but Parkland was benefiting from its diversification and from a recent improvement in orders.

Parkland issued a profits warning in late March. Its ordinary shares were static at 205p on the announcement yesterday and the A shares rose 8p to 118p.

In spite of the decline in profits, the group managed to mitigate the impact on earnings per share, which fell from 24.2p to 23.9p, because of a sharp reduction in its tax charge. It paid just £264,000 in taxation, compared with £791,000 in the previous year, because of a hefty increase in capital expenditure.

The board proposed to raise the final dividend to 4.5p (4.3p) making a total of 6.7p (6.3p) for the full year.

Mr Hanson said the weaving division, which is Parkland's traditional area of activity, was affected by a sharp fall in orders towards the end of last year. Its customers in the clothing industry were forced to postpone orders because of poor retail sales.

The clothing market was also affected by the collapse of several large manufacturers.

Parkland's weaving companies went on to short-time working at the beginning of 1990. The companies have since returned to normal production and Mr Hanson said orders were now considerably higher than at the same time last year.

The group is continuing its policy of reducing its reliance on its traditional customers in the UK clothing industry. It is increasing exports, chiefly to the Far East and Europe, and is also expanding into new products.

Parkland's joint venture in automotive fabrics with Guilford Mills of the US, is now coming on stream. It should start to contribute to sales in the second half of this year.

Young Gp chairman cleared of corruption charges

By Vanessa Houlder

SHARES in Young Group, the USM-quoted coal mining group, yesterday advanced 7p to 158p, after Mr Robert Young, its chairman and chief executive, was found not guilty of charges under the Prevention of Corruption Act 1989.

At Teesside Crown Court yesterday, a Judge directed the jury to find Mr Young, Mr Terry Hodgson and Mr Anthony Golightly not guilty, before defence lawyers began to present their evidence.

The charges concerned gifts worth £4,576, which Mr Young was alleged to have given to Mr Golightly, who was chief executive of Chester-le-Street District Council.

Young Group blamed the charges, which have hung over Mr Young for 18 months, for a fall in its share price of over 40 per cent. The company said it was delighted, but not surprised by the decision that had been reached.

The company operates private coal mines in the north-east and the midlands.

ARCC acquisition lifts Morgan Crucible's standing in the US

By Vanessa Houlder

MORGAN CRUCIBLE, the industrial materials and electronics company, has become the largest US manufacturer of crucibles through the acquisition of American Refractories and Crucible Corporation.

ARCC, based in Connecticut, had sales of $7.6m (£4.6m) in 1989 and shared the £25m US crucible market with two principal competitors. Before the acquisition, Morgan Crucible had a 10 per cent share of the US market.

Dr Bruce Farmer, group managing director, said that this deal made Morgan Crucible the largest crucible manufacturer in the world. "If there was any doubt before, this will dispel it," he said.

Norman Hay issues warning on current year

NORMAN HAY, the metals and processing group, reported pre-tax profits up from £1.82m to £1.97m in the year to December 31 from a turnover £1.07m ahead at £17.07m.

A final dividend of 1.5p makes a 2.26p (2.16p) total. Earnings per 10p share emerged at 8.05p (7.77p.).

Mr Anthony Hay, chairman, said that the current trading climate remained difficult and a considerable amount of work would be required to implement the decisions which had been taken in respect of the redirection of the surface technology side of the business.

He added that there would be a reduction in the company's profits but the company was sufficiently confident of the future to be able to recommend the same final dividend as last year making an overall increase for the year as a whole.

UK COMPANY NEWS

Limited investment in property sector planned
Nu-Swift rises 3% to £31.83m

By John Thornhill

NU-SWIFT, the fire extinguisher and office services group, which is currently awash with cash following the sale of Sicli, its French fire equipment subsidiary, reported a 3 per cent rise in pre-tax profits to £31.83m in 1989, compared with £30.76m.

However before amortisation of goodwill of £2.39m (£500,000) pre-tax profits advanced by 10 per cent to £34.22m. Sales rose from £183.7m to £444.26m.

Before its sale in February for £184m, Sicli contributed to the year's set of figures adding FFr257m (£27.7m) to pre-tax profits and FFr1.26bn to turnover.

Nu-Swift's results also included a full year's contribution from National Cleaning Group, its US subsidiary, which chipped in £8.9m to pre-tax profits and £304m to turnover.

During the year, NCG expanded further its cleaning services businesses on the west coast through the acquisition of Universal Building Maintenance for $1.5m.

Nu-Swift's UK companies, which are involved in selling and maintaining portable fire extinguishers, reported a slight improvement in taxable profits to £7.3m (£7.1m) on sales of £20.8m (£19.4m). The Dutch-based subsidiary recorded particularly strong growth with profit almost doubled.

Mr Jacques Murray, chairman, said it was intended to expand office cleaning and ancillary service businesses in the US, where the National Cleaning name was already well established.

In the UK, Nu-Swift would continue to benefit from the stable recurring revenues generated by its fire protection businesses, he said.

The money raised from the Sicli disposal would enable Nu-Swift "to take advantage of any acquisition opportunities which demonstrate the profile of stable recurring revenues generated from the provision of reliable quality products and services," Mr Murray said.

The company is, however, considering investing a limited amount of its funds in the property sector.

A further dividend of 8p has been declared which will leave the total distribution unchanged at 15p. Earnings per share came to 36.85p (38.31p) after amortisation.

Euro Leisure steps up Midsummer pressure

By John Thornhill

EUROPEAN LEISURE, the night club and theme bars group, escalated its criticism of Midsummer Leisure yesterday in an attempt to win over the company's shareholders before the final close of its takeover offer on Friday.

At the first close, EL had received 34.33 per cent acceptances for its 138p per share offer.

But yesterday, Mr Michael Ward, EL's chairman, hit out at management of Midsummer, which runs, pubs, discos and snooker clubs.

"What level of credibility and confidence can be attached to a company that fails to answer central questions about its independent future in the course of a takeover bid?" he said.

"The lack of trading and profit information is matched only by Midsummer Leisure's lack of a convincing strategy," he added.

Midsummer Leisure, responded vehemently to these comments.

Mr Paul Reece, Midsummer's deputy chairman, said: "The board is outraged at the inferences that Michael Ward has drawn about the viability of Midsummer Leisure and the competence of its management.

"The European offer values Midsummer at 8.8 times historic earnings which is far too low and the value of their shares is uncertain."

EL's offer was amicably accepted by Midsummer when it was launched last month but the board later withdrew its recommendation as EL's shares fell in the depressed leisure sector reducing the value of its all-share bid.

Further board changes at CountryGlen

Mr Jens Madsen has been appointed managing director of CountryGlen, a Dublin-based property and investment company formerly known as Glen Abbey which has seen a number of boardroom changes recently.

He is being joined on the board by Mr Gerald Kean, a solicitor, and Mr Peter Gilman is resigning as a director. Mr Madsen, who formerly worked for Mountleigh, the property group, and then MI Property Company, has declared a 15.3 per cent stake while Mr Kean represents holders of another 7.87 per cent.

A statement said there had been talks between MI and CountryGlen. However, "due to Stock Exchange restrictions, it proved impossible to complete a sensible deal."

Telecomputing patches up differences

By John Thornhill

Mr Tony Evans, chairman of Telecomputing, yesterday told shareholders in the USM-quoted computer services company that the board had patched up its disagreements with Mr Bernard Panton, its former chairman.

"I am happy to report that following a meeting between the board and Mr Panton last week all outstanding or threatened legal actions between the company and Mr Panton have been discontinued. Further, Mr Panton has agreed to assist the board in certain areas." Mr Evans said at Telecomputing's extraordinary general meeting.

The EGM unanimously approved the company's open offer to raise £500,000.

Era announces office closures to reduce costs

By Nikki Tait

NEW management installed at Era Group, the specialist retailer which faced vociferous protests over the sale of its Lexterten subsidiary to management earlier this year, has said that it is closing its London office and its Guildford headquarters.

Both closures are cited as part of a plan to reduce central costs. According to the company's new chairman, Mr Anthony Fay, the property investments of its subsidiary, Combined Estates Securities, are "not relevant to the future of Era", and the disposal of these interests is also underway.

Mr Fay said that "Trading so far in 1990 has been at satisfactory levels" with the three remaining businesses performing in line with targets. He added, however, that "constraints affecting the group earlier this year will impact on first half results."

He also reconfirmed that the company is looking at "options for improving the capital of the group". The possibility of some form of capital reconstruction came to light in the course of the recent furore over Lexterten, although Mr Fay stressed that bank facilities were adequate for the group's current needs.

Mr Fay's statement in the company's report and accounts is being posted to shareholders today and contains no auditors' qualification. The company confirmed yesterday that it has appointed new stockbrokers, Smith New Court.

R&H Hall spurns new I£44m offer from IAWS

By David Owen

IAWS, the Irish agribusiness concern, is to make a I£44.1m (£42.7m) hostile cash and paper offer for R&H Hall little more than a week after takeover talks with the Cork-based grain and fuel merchant were terminated.

The new bid represents a slight sweetening of the terms which were proposed last month and rejected by Hall as inadequate. IAWS said that it was committed to building a major Irish based food and agribusiness group.

In spurning the new offer, Hall said that it was "gravely concerned at the monopoly implications for Hall's customers and the industry as a whole."

"Hall already has approximately 50 per cent of the market for imported feed ingredients in the Republic of Ireland and that IAWS has claimed a substantial proportion of the same market."

The company also expressed the belief that the terms did not fully reflect the group's value and advised shareholders to take no action. Further comment was promised "when information is available on the results of IAWS for the half-year to 31 March 1990 and on its prospects for the current year."

Under the terms of the transaction, to be made by Citicorp Investment Bank, Dublin-based IAWS is to offer ten new ordinary shares, 500p in cash and 700p nominal of convertible unsecured loan notes for every ten Hall ordinary shares.

This is equivalent to about 200p a share – or 12p more than the previously rejected proposals. "We feel that it is much more attractive", said Mr David Martin, IAWS group financial director. Hall shares climbed just 10p to 183p.

IAWS has secured an irrevocable undertaking to accept the offer from W&R Barnett, a Belfast-based feed business and the largest Hall shareholder with 24.9 per cent. Coupled with the 2.8 per cent already in its own hands, this means that IAWS effectively controls 27.7 per cent of Hall.

The principal activities of IAWS include flour milling, fertiliser blending and agri-products. In the year to end-September 1989 it made pre-tax profits of I£5.65m on turnover of I£242m.

In addition to its grain and fuel merchanting activities, Hall has a substantial seed business and owns a tyre-retreading operation.

In 1989, pre-tax profits slid to I£2.5m from I£3.1m. Mr George MacIlwraith, formerly chairman and chief executive, died some six months ago.

Pearson to pay £2.3m for seven newspapers

Pearson, the publishing, banking and industrial group which owns the Financial Times, announced yesterday that it is to buy a mid-Somerset series of weekly newspapers for £2.3m from Seig Newspapers. The purchase is being made through Westminster Press, Pearson's regional newspaper subsidiary.

The series takes in four paid-for weekly papers and three "free" papers. The combined distribution tops 200,000 copies per week. Approval for the transaction has been applied for from the Department of Trade and Industry.

Albert Fisher

Corporate Partners LP, the investment affiliate of Lazard Freres, has bought 2.85m shares in Albert Fisher, bringing its total holding to 32.8m (5.57 per cent).

Panel criticises Henry Cooke for Automagic share purchases

By John Thornhill

THE TAKEOVER Panel has criticised Henry Cooke Lumsden's corporate finance department for breaches of the substantial acquisition rules, with which, the Panel claims, Henry Cooke should have been thoroughly familiar.

It has also required the Manchester stockbrokers' client to sell down part of a share stake as a result of the transgressions.

These SAR rules, which relate to the limits and disclosure of share purchases, are included as an appendix to the Takeover Code. They have two purposes:

First, they are intended to enable the small shareholder to benefit from any premium in the share price that might arise from a shareholder building a stake in a company.

Second, they are designed to give the company's management time to consider its position when a shareholder builds a stake and to take any appropriate action.

The criticism concerned a series of share purchases in Automagic Holdings, the USM-quoted shoe repairer and key cutter, made by Henry Cooke's corporate finance department during March and April.

Henry Cooke had been asked to acquire shares, up to the 29.9 per cent limit, by Timpson, an unquoted Manchester-based shoe repair business.

After buying an 11.5 per cent stake on Timpson's behalf, Henry Cooke bought a further 13.3 per cent from a unit trust on April 11 taking it above the 15 per cent disclosure limit.

Henry Cooke was only entitled to make this purchase if it was from a single shareholder, but the stake was, in fact, held by two unit trusts within the group. Otherwise Henry Cooke could only have bought less than 10 per cent on that date.

The Panel also found that Henry Cooke was at fault in disclosing the beneficial owner of the 24.8 per cent stake five days late.

Mr David Anderson, a director of Henry Cooke Corporate Finance, said yesterday: "I think the statements made (by the Panel) were perfectly fair. In the circumstances we were open to criticism." He added: "I think that everyone within the corporate finance department is now 110 per cent aware of the SAR rules."

The Panel has now instructed Timpson to sell a 3.3 per cent stake in Automagic (the excess to the permitted 10 per cent level) before June 1.

Because on previous occasions companies have rebought shares almost immediately after being forced to sell them, the Panel has told Timpson that it must either sell the shares in the market through an independent stockbroker or place the shares with independent parties. Either way, the disposal must be cleared by the Panel's executive.

The Panel has also stipulated that Timpson must not buy any more Automagic shares within seven days of disposing of this stake.

NEWS DIGEST

Panfida selling US offshoot

PANFIDA GROUP, the Australian-controlled retail and property company, is planning to sell its Florida convenience store subsidiary to Star Enterprise, a partnership between Texaco Refining and Marketing (East) and Saudi Refining.

The sale is part of the proposed disposal of all Panfida's US operations. It said that discussions are well advanced concerning the sale of the other remaining operations of TOC Retail, Panfida's US convenience store subsidiary.

TOC had assets of $141.9m (£91.6m) on June 30 1989. In addition to its 128 stores in Florida, it also operates 213 stores in Louisiana, Tennessee, North Carolina, South Carolina, Kentucky, Mississippi, Alabama, Virginia, West Virginia and Georgia.

The sale proceeds will be used to reduce TOC's borrowings.

Invergordon allocations

Applications for shares in Invergordon Distillers, the Scotch whisky company, were received for a total of 32.32m shares against the 30.53m available.

Applications were received for a total of 32.32m shares, against the 30.53m available. Allocations have therefore been scaled down as follows:

● Applications for up to and including 250,000 shares will be met in full;

● For up to between 260,000 and 490,000 shares (inclusive) will met as to 92.5 per cent;

● For between 500,000 and 1m shares (inclusive) will be met as to 90 per cent;

● For more than 1m shares will be met as to 87.5 per cent.

The total number of applicants was more than 6,100. Dealings in the shares are expected to start next Friday.

Casket runs up £1.88m deficit

Casket, an importer and distributor of clothing, cloth and household textiles, ran up a loss of £1.88m pre-tax for the six months to end-December from a turnover of £51.83m. The interim dividend is being omitted, against 1.2p.

The loss included significant exceptional provisions largely relating to the reduction of excessive stock levels in a number of areas.

The company is changing its year end and the figures compare with a profit of £1.7m and a turnover of £57.81m for the last six months of 1988.

To help reduce gearing and to enable strategic acquisitions to be made, Casket is raising £5.3m net via a one-for-one rights issue at 15p per share.

Forward tumbles £0.69m into loss

Relocation costs and provisions for bad debts arising in its Technograph Microcircuits subsidiary led to a pre-tax loss of £690,000 at Forward Group for the year to January 31.

The group, which trades on the USM, supplies specialist services to the electronics industry. Its principal activity is the manufacture of printed circuit boards. Last time it reported taxable profits of £1.44m.

Mr RK Chamberlain, the chairman, said that all operations were being reorganised. The group was currently trading to budget and had returned to profit for the first quarter of the year.

Turnover was slightly ahead to £8.46m (£8.36m), but operating profits fell to £369,000 (£1.57m). Interest payments rose from £134,000 to £347,000.

Losses per share amounted to 6.66p (13.66p earnings) and in light of the loss the directors are not recommending a final dividend (2.1p last time).

EBC in line with forecasts

Shareholders gathered at the annual meeting of the EBC Group were told that trading results for the first three months of 1990 were substantially in line with directors' forecasts.

Orders for building works were holding up well but house sales were flat and the directors expected no significant improvement for some time. They said the property development market was showing clear signs of reacting to the general climate of economic retrenchment.

BMSS advances 16% to £1.73m

BMSS, timber and building materials merchant, saw taxable profits for the year to the end of January 1990 rise 16 per cent from £1.49m to £1.73m.

Turnover for this USM-quoted company advanced 9 per cent to £13.1m (£12.02m). Earnings per share were 16.2p (16p) and a recommended 2.5p final dividend makes 4.375p (4p) for the year.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Ambrose Invest ....fin	10.08	-	8.73	15.36	13.41
Assoc Paper ....int	2.75	July 2	2.75	-	6.75
Cronite ....int	1.5	July 1	1.5	-	4
El Oro Mining ....fin	12	-	10	12	10
Exploration Co ....fin	6	-	5	6	5
Hay (Norman) ....fin	1.5	-	1.5	2.26	2.16
Jackson Group ....fin	2.2	July 2	2*	3.2	2.65*
Jarvis ....fin	1.05	-	1.5	1.875‡	2.25
MMT Computing § ...int	1	July 9	0.8	-	2.45
Nu-Swift ....fin	8	July 2	9	15	15
Parkland Textile ....fin	4.5	July 12	4.3	6.7	6.3
Westerly ....fin	2	-	2	2.5	2.5
Worth Invest ....fin	0.27‡	-	0.3	0.27	0.4
Xtra-vision § ....fin	0.56†♣	-	-	0.86	-

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ‡For nine months. ‡For seven months, and includes special 0.15p. ♣Irish currency throughout.

UK COMPANY NEWS

UK Land falls to £1.71m in difficult market

By Paul Cheeseright, Property Correspondent

PRE-TAX profits at UK Land, the property company, dipped sharply at the half way stage, but the company, facing a slower market, has been reducing its indebtedness.

At the end of March the company's net asset value was 750p per share, compared with 724p at the end of September 1989.

During the six months to last March, pre-tax profits were £1.71m compared with £4.42m at the end of the 1988-89 first half.

Earnings per share were 27p against 63p. As usual there is no interim dividend payment.

Over the last six months, UK Land has reduced the amount falling due to creditors within the next year from £73m to £49m and moved the level of its current assets from £7m to £24m.

Interest payments in the first half were £1.23m against £2.61m in the comparable period of the last financial year.

Like other property companies UK Land has been seeking to reduce its exposure to high interest rates and a declining market.

It is seeking to build up cash to make corporate acquisitions.

It has property sales worth £10.1m under contract but not yet completed, £4.3m of property under offer and a further £4m of property on the market.

Mr Colin Tett, chairman, said UK Land was concentrating its development programme on the the Northampton Business Park, the first phase of which had been let to Barclays Bank, and its investment activity on the Elephant and Castle shopping centre,in south London, where rents remained relatively low.

Rock hits out at dissidents

By Nigel Clark

THE PROBLEMS and disruption at Rock, the component distribution group, cost almost £500,000 in 1989.

In addition Mr Simon Raynand, who took over as chairman in December, thought that the dispute with dissident shareholders contributed to a trading loss in the year of £35,000, compared with profits of £109,000.

However, he felt that the new management had been able to clean up the company and expected it to be trading profitably in the present year. "It has taken a lot of effort and I hope that our problems are behind us."

On turnover of £8.91m (£4.92m) there was a pre-tax profit of £402,000 (£109,000) resulting from an exceptional profit of £887,000 on the sale of a property less £250,000 of compensation paid to Mr Oswald Dockery, who resigned as chairman in November.

Further costs relating to 1989's problems were taken as extraordinary items, being the £117,000 cost of holding the extraordinary general meeting in October, at which there was an attempt to change the board and £116,000 related to an acquisition which was aborted because of disruption.

Mr Raynaud said that the problems had also taken up a large amount of management time and effort.

He added that as a sign of the board's confidence in the future it was recommending a final dividend of 0.75p, the first since 1980.

Earnings per share were 3.35p (1p).

A provision of £89,000 against the outstanding consideration on the sale of a subsidiary was also taken as an extraordinary.

The total was offset by the profit on the disposal of the property, leaving an extraordinary charge of £44,000 (£645,000).

Magnet attempts to force leaseback settlements

By Maggie Urry

MAGNET, the kitchen and bathroom *furniture retailer*, is suing Mountjay, a privately-owned property group, in an attempt to force the completion of three sale-and-leaseback deals worth a total of £43.1m.

Magnet is demanding the performance of the contracts and damages to cover the loss of interest caused by the non-payment of the cash.

It was seen as an attempt to twist Mountjay's arm into completing *the* contracts. Under the deals Magnet would receive £43.1m from Mountjay and leaseback the properties paying an annual rent of £4.7m.

Magnet was bought out by management in July last year through a leveraged bid and rapidly encountered trading difficulties which made a refinancing of its hefty borrowings necessary within a few months. The refinancing was completed in February.

In order to raise cash to reduce borrowings taken on for the buy-out, Magnet arranged a series of sale-and-leaseback deals on shops, factories and other properties with a total value of nearly £115m, and total annual rents of £12.9m.

These were agreed between June and October last year, since when values of shop properties have come under pressure because of difficulties being faced by retailers.

Two of the buyers of the properties – Mountjay and Bourne End Properties – delayed completion of the deals. Bourne End completed one deal, worth £16.2m, in April after Magnet employed the same tactic as it is now using on Mountjay.

Magnet has agreed not to continue with two other contracts with Bourne End covering its factory and head office at Keighley, West Yorkshire. This move has the agreement of Magnet's bankers, the group said.

Rush & Tompkins financial details expected today

By Andrew Taylor, Construction Correspondent

CREDITORS of Rush & Tompkins, the failed commercial developer and contractor, should have a better idea after today of where they stand.

Mr Christopher Morris and Mr Tony Houghton, partners of Touche Ross accountants, who have been appointed administrative receivers to Rush & Tompkins, are today expected *to provide* the first details of the financial state of affairs of the group, which had £600m worth of developments underway when it collapsed.

An advertisement in yesterday's Financial Times from Touche Ross offered for sale the businesses and assets of Rush & Tompkins including investment properties, 250 contracts ranging in value from £50,000 to £100m, plant and equipment, motor vehicles, two leisure clubs and building materials.

Many of the group's developments, however, are joint ventures with the development properties secured against *loans from* banks which include Lloyds, Standard Chartered, Security Pacific, Banque Indosuez, First Interstate Bank of California, Citibank and British Linen Bank.

The last named has already put a receiver into one Rush & Tompkins development. Other banks are likely to have followed suit.

Lenders which take over unfinished developments will have to decide whether to complete the projects or try to sell *the sites as they stand.*

This could involve delicate negotiations with contractors which may not have been paid by Rush & Tompkins but whose goodwill will be required if work is to be completed.

NEWS DIGEST

MMT Computing tops £1m

MMT COMPUTING, the USM-quoted computer systems consultancy, lifted half year pre-tax profits from £922,000 to £1.01m on turnover ahead from £3.46m to £3.74m.

Earnings for the six months, to February 28 1990, worked through at 5.7p (5.5p) and the interim dividend is 1p (0.8p).

Mr Mike Tilbrook, chairman, said the new joint venture MMT Computing (AS) showed a loss at the end of the period, but week by week trading was now profitable.

The other new joint venture, MMT Computing (Training), had initially incurred substantial costs, all taken in the figures; initial bookings were slower than hoped but an excellent order from British Telecom "perhaps signals a breakthrough".

The established joint ventures with MMT Computing (Reading) and MMT Computing (South East) performed well, and the mainstream of the company, together with RTL Software Services, made a satisfactory contribution.

However, he pointed out that the market place was difficult at present and group utilisation of fee-earning staff was around 95 per cent, as opposed to almost 100 per cent in earlier years.

Jackson Group up 29% to £3.75m

Jackson Group, the construction, property and engineering combine, produced record figures for 1989, with turnover and pre-tax profits up 35 per cent and 29 per cent respectively.

Prospects for the current year were described as encouraging. Good order books and continuing high levels of inquiry held "a clear prospect" of further growth.

Turnover in 1989 came to £60.6m (£44.78m) and profit to £3.75m (£2.9m). From earnings up to 11.2p (8.6p) the dividend is raised to 3.2p (2.65p) with a final of 2.2p.

Jarvis turns in £2m for nine months

Jarvis, the construction and property group, returned pre-tax profits of £2m for the nine months to December 31 1989, from turnover of £55.34m.

They compared with £2.39m and £47.38m for the previous full year. That profit included exceptional gains of £719,000.

Directors stressed that the group had no involvement in speculative property development, housebuilding or off-balance sheet financing, and at the end of the year had net borrowings of just 11 per cent of shareholders funds.

Jarvis was soundly based and well placed to take advantage of the increased flow of opportunities that "the market shake out was generating" they said.

Earnings came to 7.4p (12.7p for year) and the final dividend is 1.05p for a total of 1.875p (2.25p).

Atlantic Res extends deadline

Atlantic Resources, the USM-quoted oil and gas explorer, has decided to extend the expiry date of 15.9m outstanding warrants in order to finance production from an oil discovery.

It proposes extending the expiry date of the warrants, which are convertible at 15p per share, from June 1 to October 3.

It said that the warrants could represent a method for raising finance for the company at minimal cost.

Atlantic is now in discussions with a number of interested parties with a view to forming a consortium to start production on a suspended oil discovery.

Cronite hit by loss of major customer

A *problem in a major* profit earning part of the business and higher borrowing costs hit Cronite Group in the half year to March 31 1990, when turnover fell 22 per cent and pre-tax profit 28 per cent.

Mr Jim Butler, chairman, explained that Cronite Alloys, the metal processing subsidiary, suffered by the withdrawal from the market of its largest customer, and it was not possible to make up that contribution from other activities in spite of their generally excellent results.

Turnover fell to £21m (£27.2m), trading profit to £1.23m (£1.47m) and the pre-tax balance to £781,000 (£1.08m).

Manufacturing units performed well with Cronite Castings and Atkinsons both ahead substantially; the stockholding business also showed improvement.

Immediate prospects were still favourable, Mr Butler stated, with orders picking up at Cronite Alloys; the board held the interim dividend at 1.5p, payable from earnings of 3.1p (5.2p) per share.

Purchase will provide group with 15 ready mixed concrete plants

Evered agrees $36.43m US buy

By Andrew Taylor, Construction Correspondent

EVERED, the British and US quarry products group, yesterday announced its second large acquisition in the US this year.

The group, which a fortnight ago announced a 30 per cent increase to £39m in 1989 pre-tax profits, has purchased Super Concrete Corporation and a number of related ready mix concrete and aggregate businesses in Maryland and Washington DC.

Mr Roy Kettle, Evered's chief executive, said the group had agreed to pay $36.43m (£22.38m) to acquire the business.

Of this $22.28m is to be met by the issue of 11.1m new ordinary Evered shares. The balance will be provided by cash and short term loan notes.

It will provide the group with 15 ready mixed concrete plants with the capacity to produce 1m cubic yards of concrete a year.

It has also acquired an option to purchase Materials Industries quarry business for $6m by the issue of 2.99m Evered shares.

Earlier this year it acquired Millville, a large limestone quarry in West Virginia, for $46.5m.

Mr John Ford, Evered's finance director, said yesterday that the effect of the latest US purchase would at worst be neutral to earnings per share.

Evered's earnings per share growth has been sluggish by comparison with the sharp rise in operating profits since 1987 as the group has issued shares, including a £68m rights issue in September, to support a string of quarry acquisitions in the UK and US.

Mr Ford said: "We are not expecting at this stage to make any further major acquisitions this year. We have kept to our commitment made at the time of our annual results that this latest US acquisition would not involve a rights issue and would not increase gearing which is currently about 60 per cent of shareholders funds."

Roy Kettle: chief executive of Evered Holdings

Special facilities at WTA

By Maggie Urry

SMALL shareholders of Wiggins Teape Appleton, the pulp and paper group being demerged from BAT Industries, will have a special buying facility as well as a no-commission sale facility after the shares are listed on June 1.

Details of the demerger are due to be released tomorrow. Shareholders in BAT, the tobacco and insurance group which recently escaped from the threat of an unbundling takeover bid from Sir James Goldsmith's Hoylake, will be given shares in WTA.

As with Argos, those who receive small allocations of shares will be able to sell these parcels free of commission for a period after the listing.

However, WTA is going further in instituting a buying facility for holders of small numbers of shares so that they can top up their holdings without the costs of dealing through the stockmarket.

The listing particulars are expected to give an indication of current trading and the outlook for the year. Analysts expect the duller trading background of the second half of last year to have persisted into the first quarter of the current term, when pulp prices were falling.

Estimates of the group's likely market capitalisation have been coming down since last summer – when figures of up to £1.5bn were put forward – because of the worsening background for the industry.

However, WTA's range of higher-value added, specialist papers is thought to give it an advantage over companies with a heavier exposure to the high volume/commodity end of the industry.

Rosehaugh raises £23.5m via sale and leaseback of HQ

By Paul Cheeseright, Property Correspondent

ROSEHAUGH, the property group seeking to reduce its indebtedness and improve cashflow, is receiving an injection of £23.5m from the sale and leaseback of its own headquarters in central London.

It is selling the 28,500 sq ft office building in Marylebone Lane to Pleiad Real Estate, a Swedish group, and renting it back for 25 years at what Pleiad described as "a market rent."

This is Pleiad's first property purchase in the UK and extends a long line of Swedish purchases in the main financial centres of Europe over the last 2½ years.

Pleiad was set up last year by Volvo, the motor manufacturer, and a group of four Swedish insurance and pension funds.

So far it has spent nearly £600m on properties in Copenhagen, Paris and southern Germany. Its investment programme throughout Europe provides for spending of up to £1.49bn in its first five years of existence.

Mr Per Mallender, chief executive, yesterday held out the prospect of further co-operation with Rosehaugh either through joint ventures on property development projects or through Pleiad purchases of Rosehaugh developments.

Rosehaugh raised £125m through a one-for-one rights issue last February and has since disclosed that it will place £400m of property on the market this year from completed developments.

The sales programme is designed to reduce indebtedness. On-balance sheet borrowings rose from £262m to £462m between June 1989 and January 1990.

The sale of the headquarters programme is part of this sales programme. The property has been on the market since last Christmas and the original asking price was £30m.

Mr Mallender acknowledged that as a foreign investor Pleiad could expect to pay more than a UK investor, but he said the yield on that purchase was higher than some earlier Swedish property purchases.

Rosehaugh's sales programme takes place in a sluggish market.

It includes offices in High Wycombe and Reigate and shopping centres in Barnstaple and Torquay, as well as development projects in the portfolio held by subsidiary companies like Shearwater and residential land held by Pelham Homes.

On the stock market, the sale of Marylebone Lane has been expected for some weeks and made little difference to a share price which sagged in a generally steady market to close 11p down on the day at 214p.

Grovewood lifts Priest Marians stake

By Paul Cheeseright, Property Correspondent

GROVEWOOD Securities, the mini-conglomerate, in one of a flurry of deals yesterday, has lifted its ordinary share stake in Priest Marians Holdings, raising the possibility that it may be seeking to push its takeover talks to a conclusion.

By converting £2.2m worth of convertible unsecured loan stock into ordinary shares, Grovewood increased its ordinary share stake to 23.4 per cent from 19.6 per cent.

At Priest Marians, the property company which owns the Langham Estate in central London, the Grovewood move was greeted cheerfully although there was little idea of what it might portend. Mr Daniel Auerbach, the chairman, noted that if Mr David Holland, the chairman of Grovewood, is prepared to sacrifice loan stock income for ordinary equity, then that showed confidence in the company.

Last February Grovewood acquired a 13.8 per cent stake in Priest Marians and started friendly talks that could lead to an attempt to reverse Grovewood into Priest Marians. Subsequently Grovewood enlarged its stake. But the biggest shareholder in Priest Marians is JMB Realty of Chicago whose view of Priest Marians' future has not been disclosed.

JMB paid 380p for its stake. Grovewood paid the equivalent of 300p at its initial purchase, but the market price of Priest Marians yesterday was 201p. Grovewood also said it either owned or had received acceptances for 64 per cent of the ordinary equity in the Early's of Witney group. Furthermore, Grovewood has agreed terms for the sale of its Press Operations subsidiary.

● Marina Developments said it had bought in for cancellation 650,000 shares from a subsidiary of Priest Marians at 417.5p a share.

NEWS DIGEST

Honorbilt buoyed by US buy

HONORBILT Group, the clothes importer traded on the Third Market, reported taxable profits of £596,000 for the six months to January 31, helped by the incorporation of Tomato, its latest US purchase.

The figure compares with £372,000 for the six months to the end of October, its previous interim date before the change in its year end. Turnover was £21.27m (£10.15m). Earnings per share 0.58p (0.6p).

Mr Harold Tillman, chairman, said the profits were sound despite problems following the Gallini acquisition. He said that steps were being taken for redress and that under its new management Gallini was almost breaking even.

Westerly profits reduced to £0.72m

Westerly, the yacht builder and shoe maker, reported pre-tax profits down from £991,000 to £718,000 for the year to December 31. Turnover was higher at £22.3m compared with £18.63m.

The comparisons have been restated. following a change in the company's accounting policy for the treatment of goodwill.

A breakdown in the profit figures shows that the marine leisure side improved from £818,000 to £905,000 but business services fell from £548,000 to £373,000. Central costs however fell from £308,000 to £268,000 leaving operating profits marginally lower at £1.01m (£1.06m).

After interest of £292,000 (£67,000) and tax of £13,000 (£109,000) earnings per share emerged at 5p (6.3p). There was an extraordinary gain of *£247,000 (£387,000 loss)*. The dividend is maintained at 2.5p with a recommended final of 2p. A scrip issue of one 11 per cent £1 cumulative preference share for every 20 ordinary held is also recommended.

Exploration Co and El Oro both ahead

The Exploration Company, which mainly deals in investments and owns almost 50 per cent of El Oro Mining & Exploration, another investment dealer, increased earnings per share from 12.28p to 17.47p in 1989. The dividend is lifted by 1p to 6p.

Group income rose from £2.38m to £3.3m and the pre-tax profit from £2.19m to £3.06m.

El Oro, which in turn owns nearly 46 per cent of Exploration, *saw its earnings rise from 25.82p to 41.39p in 1989*, and is lifting the dividend by 2p to 12p.

Group income advanced from £1.83m to £2.88m, and the pre-tax profit from £1.7m to £2.71m.

IEP has 28.62% of United Scientific

IEP Securities, the UK investment vehicle of Sir Ron Brierley, has continued buying shares in United Scientific Holdings, taking its holding to 28.62 per cent.

On Wednesday, it purchased a further 1.35m shares lifting its stake in the defence contractor from 26.2 per cent. It had already added 4 per cent to its holding earlier in the week.

USH has said that IEP, which first declared a holding in February, has indicated to it that it does not intend to mount a bid for the company.

USH narrowly escaped being taken over by Meggitt, the specialist engineering group, last year.

CHI makes home furnishings disposals

CH Industrials, the industrial holdings company, is selling its two home furnishing subsidiaries to management for £1.1m.

It also announced the earlier sale of two other subsidiaries, *Featly Products and Raleigh* Caravan Awnings, for a total of £530,000.

CHI said the deals reflected a desire to concentrate on its core businesses in transport, office furniture and household products. It would, however, retain a 19 per cent stake in the buy-out company, set up by two former senior executives of the group. The initial payment to CHI in this case was £185,000, with the *balance being paid on deferred* terms.

Souza Cruz falls in first three months

Souza Cruz – a subsidiary of BAT Industries, the UK tobacco-based conglomerate and one of Brazil's biggest companies, yesterday reported a net profit of only 2bn cruzerios in the first three months of 1990. This compares with 3.2bn cruzerios in the similar period a year earlier.

The results are stated in inflated-corrected terms, and the downturn is blamed on lower tobacco results coupled with reduced investment income.

Souza Cruz said that Companhia De Cigarros made a small loss in the first quarter of 71.2m cruzerios, due to "inflation driven cost increases" outstripping price rises awarded by the Government. Margins were also hit by higher tax charges and the cost of absorbing leaf growers' financing costs.

Cigarette volume increased by 1.4 per cent, giving the company a 79 (77) per cent market share. In the first quarter last time, this business made a profit of 1.06bn cruzerios.

On the pulp and paper side, profits increased from 1.18bn to 1.42bn cruzerios, with average prices up 21 per cent. The fruit juice business saw an advance from 89.7m cruzerios to 497.6m cruzerios.

Lovell places out Higgs & Hill stake

YJ Lovell, which earlier this year lost a £157m bid battle for fellow housebuilding and construction group Higgs & Hill, *has placed out its near-10 per* cent stake in its former target.

According to the company's advisers, the 3.39m shares were placed widely by Kleinwort Benson Securities.

Acquisitions help Xtra-vision treble

Acquisitions were behind almost trebled pre-tax profits at Xtra-vision, the Dublin-based video-cassette distributor in the year to January 31.

The USM-traded company reported profits up from *I£1.52m to I£4.53m (£4.39m)*.

Results in the US were ahead of expectations and the business was successfully established in Northern Ireland, the company said.

Turnover was I£17.12m (I£4.66m). Earnings per share were 5.58p (2.69p) and the directors are proposing a final dividend of 0.56p for a total of 0.86p.

Next chief takes £45,000 pay cut to £404,000

By Maggie Urry

MR DAVID JONES, chief executive of Next, the high street and home shopping retail group, took a pay cut of about £45,000 to £404,247 in the year to end-January 1990.

In the previous year Mr Jones had been in a band between £445,001 and £450,000.

Directors' remuneration fell from £1.6m to £900,000, and including fees and pension contributions, their total payments dropped from £1.7m to £1.1m.

Mr Jones's salary is related to the group's performance.

Next made a pre-tax loss of £46.7m after exceptional debits of £73.1m in its last financial year, against a profit of £62.3m after exceptional costs of £7.8m.

In the previous year Mr George Davies, who was chairman and chief executive until he was fired on December 8 1988, received £515,143.

Staff costs during 1989-90 totalled £142.9m (£147.3m) and staff numbers on a full-time equivalent basis fell from 16,312 to 13,572.

However, some businesses were sold during the year explaining part of the reduction.

Mr Peter Lomas, finance director, said the cost of producing the annual report had been reduced for the second year in a row.

David Jones: his salary is performance-related.

Sotheby's first quarter sales income up 39%

By Clare Pearson

Sotheby's Holdings, the international auction house bracing itself for crucial Impressionist sales in New York this month, lifted auction sales by 39 per cent to $282.3m (£169m) in the first quarter.

Net income rose by 15 per cent to $5.98m ($5.19m), or $0.10 ($0.09) per share. Revenues were $61.4m ($48.9m).

Mr Michael Ainslie, chief executive officer, said the 1990 results indicated "a strong buying interest in virtually all collecting areas that held sales this quarter."

But at sales of Impressionist and Modern paintings in London last month, concerns were raised that the euphoria in the art market was on the wane. Sotheby's is now poised to commence its New York Impressionist and contemporary series.

Last week the company announced it had formed a joint venture with a New York gallery. The joint venture company is to pay $142.8m to acquire a collection of 20th century paintings from the estate of Pierre Matisse, son of Henri Matisse, the French painter.

Stanley Miller in bid talks as loss leaves book deficit

By David Owen

STANLEY MILLER Holdings, the Newcastle upon Tyne-based building contractor, is in discussion with a third party regarding a possible offer for the company.

Trading in the company's shares was suspended at 20p on Friday, pending clarification of its financial position. The company said that any offer "is unlikely to be pitched at the price ruling at the time of suspension." Less than a year ago, on May 25 1989, the shares hit a high of 336p.

The company also announced that unaudited 1989 accounts indicate that it incurred losses of some £4.5m.

This includes losses of £2.7m in respect of its Scottish construction unit which was closed last September, and £800,000 for prior year losses in the construction division in the north of England.

"The group's capital and reserves as shown by the audited accounts at December 31 1988 amounted to £2.6m and there is therefore a serious deficiency based on book value", the company said.

Nevertheless, Mr Harry Midgley, group managing director, was optimistic – if takeover discussions were successful – that "the outstanding liabilities of the group would be met in full."

In the six months ended June 30 1989, Miller made pre-tax profits of just £22,000 on turnover of £27.6m. It had since warned that its 1989 results would fall "considerably short" of the previous year's levels.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bibby (J), Titon.
Finals- Brent Walker, Calabread Robey, R&V Information Systems, Tatica.

FUTURE DATES

Interims-	
Greenall Whitley	May 18
London Scottish Bank	June 13
Midsummer Leisure	May 17
Northern Ind Improvement	May 16
Finals-	
Govett American Endeavour	May 15
Monks Inv Trust	May 22
Sainsbury (J)	May 16

No probe for TKM's Western Motor bid

By John Griffiths

THE DEPARTMENT of Trade and Industry is not referring Tozer Kemsley and Millbourn's £100m bid for Western Motor Holdings to the Monopolies and Mergers Commission, clearing the way for a probable completion of the takeover today.

TKM, the motors group controlled by Sir Ron Brierley's IEP investment vehicle, expects by then to have acceptances in respect of more than the 90 per cent of Western needed under the terms of the agreed bid.

The offer was originally due to have closed on April 27. Acceptances at that stage were just short of the target, at 86.88 per cent, and it was subsequently extended to next week.

Mr Reg Heath, TKM chief executive, said he was nevertheless "delighted" at the response, describing it as "an endorsement of the strategic rationale of the proposed enlarged group".

The offer is of 789p cash per share, with a loan note alternative.

Acquisition leaves Tubular in loss

The effects of acquiring Black & Edgington left Tubular Edgington with taxable losses of £975,000 in the six months to the end of January, compared with profits of £541,000.

The company said that the purchase in June last year had emphasised the seasonal nature of its activities and there had been additional integration costs. The 1989 figures also reflected a strong contribution from the 1988 Farnborough Air Show. The 1990 airshow would be included in the second half.

Turnover for this USM-quoted provider of crowd control barriers, seating and accommodation for exhibitions and sporting events increased to £3.17m (£2.78m). A tax credit of £341,000 (£189,000 charge) left after tax losses of £634,000 (£352,000 profits). The loss per share was 0.93p (earnings 0.77p).

Associated Paper falls to £0.82m after increased costs

ASSOCIATED PAPER, the paper and film converting group, reported reduced pre-tax profits of £817,000 for the six months to March 31 1990 compared with £1.04m for the half year ended April 1 1989.

Mr Charles Rawlinson, chairman, said it had been an eventful half year in which, after a slow start, there had been an improving trend. The group had sold, or agreed to sell, three companies which no longer fitted the long-term strategy. He said that the group's refocusing, including its final withdrawal from paper making, had been substantially completed. That was to be reflected in a change of name to API Group.

The result was lower than in the comparable period due mainly to increased consultancy and other costs incurred to achieve increased productivity.

Turnover was slightly lower at £38.28m (£39.73m), although sales of continuing businesses increased by 14 per cent. Mr Rawlinson said that despite the somewhat uneven demand in the home markets exports from Britain and the US continued their strong growth and now accounted for about 37 per cent of external turnover.

The interim dividend is maintained at 2.75p, payable from earnings per share of 2.5p (3.3p).

Johnson Matthey plans S African investment

By Kenneth Gooding, Mining Correspondent

JOHNSON MATTHEY, the world's biggest platinum refining and marketing group, is to install capacity to produce up to 2m automotive catalysts a year in South Africa.

This is slightly surprising given that there is no requirement for the catalysts, which reduce pollution from cars, in South Africa but JM said that export incentives made it worthwhile sending the devices to customers in Europe.

It was expected most of the catalysts would go to West German car producers, including BMW, Daimler-Benz (Mercedes) and Opel, a General Motors subsidiary.

However, JM has operated in South Africa for 30 years and has indirect links with Mr Harry Oppenheimer's Anglo American Corporation of South Africa which is widely seen to have a substantial influence on the UK company.

JM will move its existing South African refining, fabrication and chemical products operations to an existing factory at Germiston, east of Johannesburg, where the catalyst capacity will be installed and be in production next year. The total cost of the exercise will be R35m (about £13.5m).

More than one third of the world's platinum supply is used for automotive catalysts and about 80 per cent of mined platinum originates in South Africa. JM already has the capacity to produce about 30m catalysts a year, including a plant at Evere near Brussels opened in February and a smaller one at Royston in the UK.

The group stressed the move was not part of the reorganisation of JM, announced by the new management team on Wednesday, which will involve the loss of hundreds of jobs in the UK and the US and analysts suggest will cost about £10m.

Tullow Oil calls for I£5.85m

Tullow Oil is raising I£5.85m (£5.68m) in a fully-underwritten rights and warrants issue.

The issue is on an eight-for-24 basis at 13p each. Three warrants are offered, at no cost, for every eight new shares taken up.

COMMODITIES AND AGRICULTURE

Soviet internal grain prices soar

By Quentin Peel in Moscow

THE SOVIET Government has announced hefty increases in the procurement prices it pays for grain, including rises of more than 90 per cent for the better grades of wheat, in an urgent effort to increase supplies to the state.

The move follows a serious slump in state purchases last year, which fell 27.3m tonnes short of the 86.3m tonnes target, as the country's huge state and collective farms consumed more locally, and switched to more profitable livestock production. At the same time it is clearly hoped that the price rises will raise overall production and help reduce the Soviet Union's huge food import bill.

However, the massive increases, above all in the price for wheat, are likely to put a major new burden on the state budget deficit at a time when the top economic priority is supposed to be to cut government spending. None of the increases are supposed to be passed on to the consumer, because no reform in retail prices has yet been approved by the Soviet authorities.

In particular, the decision said that there would be no price increase for mixed feed sold for livestock and poultry, in order to ensure that there was no increase in either meat or chicken prices. Under the decree announced by the Soviet Council of Ministers, the price for top-grade wheat will rise from R260 (£263) a tonne to R500, and for second grade wheat, from R205 to R400.

The increases for most other grains are rather less – 66 per cent for third-grade wheat, 54 per cent for rye, 65 per cent for rice. The biggest price rise of all, however, is for malting barley, up almost 135 per cent from R162 to R380, apparently reflecting official determination to boost the production of beer, currently in very short supply.

The question now is whether the new purchase prices will succeed in stimulating grain production and sales to the state, given the current disarray of Soviet agriculture. Soviet grain imports actually rose last year by 1m tonnes to 36m tonnes, in spite of a good harvest. State purchases totalled 59m tonnes, instead of the intended 86.3m tonnes.

The introduction of new rules last summer to pay hard currency, instead of roubles, for top-quality grain production above the plan brought in an increase of only 232,000 tonnes, or less than 1 per cent. Those regulations appear to be unchanged by the latest decree, and may have a greater effect in a full year.

The official announcement of the price rise in Pravda, the Communist Party newspaper, yesterday said that it had been "found necessary to speed up the process of implementation of new prices for state purchases of grain, according to the economic reform," no doubt to give state farms a clear signal at the start of the season.

The rest of the promised economic reform package is still locked in debate in Mr Mikhail Gorbachev's presidential council. A sharp price rise was promised last year by Mr Yegor Stroyev, the Communist Party central committee secretary in charge of agriculture, who said the return on grain production was only a half to a third of the rate of return on livestock.

"A sharp increase in grain prices will help to explode the lack of respect for its cultivation and give the peasant an incentive," he told Pravda. "This would release foreign currency for the purchase of consumer goods in the foreign market. It would also provide a reserve for better payments for grain."

He said that retail prices must also rise in line with wholesale prices, to prevent farms using bread, hulled grain and pasta products as feed for livestock.

Canada's £300m plan to halt over-fishing

By Bernard Simon in Toronto

CANADA HAS unveiled a C$584m (£300m) package to support its hard-pressed east coast fishery, including an intensified diplomatic and publicity campaign to discourage overfishing by European trawlers.

The package, consisting of conservation, diversification and financial assistance measures, is intended to counter the severe depletion of east coast fish stocks, especially off Newfoundland and Nova Scotia, which has already caused the closure of several plants and cost several thousand fishermen and processing workers their jobs.

The Government announced the measures a few days before Mr Manuel Marin, the European Community's fisheries commissioner, arrives in Ottawa to discuss Canada's complaints with Mr Brian Mulroney, the Prime Minister, and other cabinet members in Ottawa.

The Canadians are likely to press the EC to match their efforts in cutting the Atlantic catch and processing capacity.

In particular, they will present details of specific vessels from European fleets which they allege have been heavily overfishing.

The Canadians are especially concerned about a relatively small portion of the valuable northern cod stock which migrates beyond the 200-mile limit into what is known as the "nose" of the Grand Banks off Newfoundland. This area has been the main target of Portuguese and Spanish trawlers, even though it officially falls outside quotas set by Northwest Atlantic Fisheries Organisation.

For its part, the EC is expected to suggest expanded scientific co-operation, a move that would be welcomed by the Canadians, who feel that most of the research burden in the north-west Atlantic has up to now fallen on themselves and the Soviet Union. Ottawa is opposed, however, to the EC conducting research on fish stocks inside the Canadian 200-mile zone. With the overfishing dispute centred on areas outside the 200-mile zone, a key element in Canada's strategy is to strengthen the "management rights" of coastal states over these areas.

Canadian negotiators, led by a senior maritime law specialist, are trying to impose wider legal obligations on states fishing on the high seas to co-operate with nearby coastal states.

Meanwhile, Ottawa is planning to step up a publicity campaign in Europe which seeks to link control of fishing with wider protection of the environment. It aims to involve the Canadian industry and fishing communities more closely in this publicity effort.

The Government support package seeks to strike a balance between conflicting demands of the fishing communities. It offers some help to the existing industry, but at the same time makes it clear that the east coast's dependence on fishing must be reduced if fish stocks are to be replenished and a long-term livelihood guaranteed for people currently employed in fishing.

The C$150m set aside to rebuild fish stocks will be spent on expanded scientific research, new minimum fish and net meshes, and stricter surveillance and enforcement. The Government has allocated C$130m for assistance to trawlermen and plant workers who lose their jobs as a result of the expected contraction of the industry.

Licences will no longer be freely available to part-time fishermen. The remaining C$146m will be used for economic diversification, including value-added fish products, aquaculture and greater exploitation of under-fished species, such as flounder, herring and mackerel.

Any effort to broaden the non-fishing base of Newfoundland and Nova Scotia raises sensitive economic and sociological issues. The remote fishing communities would have difficulty attracting other types of business on any large scale, but most of their inhabitants are reluctant to give up a lifestyle entrenched for generations in the outports.

Central America's coffee pact hopes fade

By Tim Coone in San Jose

HOPE HAS faded in Central America for a new coffee quota accord which would stabilise prices and the region's economy.

Mr Luis Diego Escalante, Costa Rica's Foreign Trade Minister, who has been a key figure among "other milds" producers in attempting to negotiate a new quota agreement since the previous one collapsed in July last year, said "the lack of interest by 50 per cent of the world's coffee producers and the indifference of another 25 per cent makes it almost impossible to imagine a new agreement being reached in the near future."

He said that the combination of growing world demand and a modest recovery in prices has persuaded many producer countries that a free market might serve their interests better. "Brazil in particular has given no indication of wanting to return to the quota system" he said, adding, "If prices continue in the $90 to $100-per-quintal range alongside growing demand, it is unlikely there will be a return to negotiations."

Mr Escalante estimated that the five Central American producing countries, which depend heavily upon coffee exports to prop up their ailing economies, and which together produce almost 50 per cent of world supplies of "other milds", had lost "between 15 and 25 per cent" of their coffee export income. "The fall was more drastic and more prolonged than anybody expected," he said predicting that a recovery in prices would take "at least two years."

He suggested, however, that quality beans in the "other milds" group might become scarcer, encouraging higher prices, as a result of farmers paying less attention to processing their crops in order to shave production costs while prices remained low.

Mr Escalante is to hand over his ministerial post this week due to the change of government in Costa Rica, "but I do not envisage any radical changes in our policy," he said. He is to continue his involvement in the coffee market as an adviser to the Costa Rican Coffee Institute.

●Fundamental factors on balance point to a "slightly bearish" coffee market for the next few months, according to E.D.& F.Man, the London trade house, writes David Blackwell.

Seasonally low roastings have combined with relatively high consumer stocks on the demand side, while supplies from Brazil are expected to pick up following the recent fall in internal market prices.

Far Eastern jewellers overtake Western Europe in gold usage

By Kenneth Gooding, Mining Correspondent

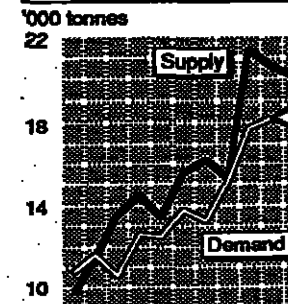
THE FAR Eastern jewellery industry for the first time last year consumed more gold than the Western Europe industry, which traditionally has dominated the business, according to the latest annual review of the gold market from the Shearson Lehman Hutton financial services group.

Shearson estimates that the Far Eastern countries consumed about 476 tonnes of gold last year, compared with 407.1 tonnes in 1988, whereas consumption in Western Europe was 475 tonnes compared with 414.6 tonnes.

The Far Eastern performance gave the jewellery sector, "the linchpin of the gold market," inordinate strength in 1989 so that consumption by the jewellery fabricators jumped from 1,234 tonnes in 1988 to 1,414 tonnes or 45.5m troy ounces. It thus accounted for more than 85 per cent of newly-mined western gold production, analyst Ms Rhona O'Connell points out.

However, on the basis of gold's average price of $381.52 an ounce last year, compared with an average of $437.10 in the previous year, the gold content of last year's jewellery fabrication was about $17.34bn, very marginally lower than the value of 1988's offtake. Shearson's statistics suggest a slip of about $16m or 0.1 per cent.

Ms O'Connell predicts that jewellery manufacturers will this year take about 1,350 tonnes of gold, a 5 per cent reduction on 1989, and that most of the fall in demand will come from the Far East. Demand from Western European jewellers will hold firm, mainly because of the importance of the Italian fabricators, Shearson suggests.



"The longer-term historical perspective shows how jewellery has become increasingly important as a consumer luxury. Absolute levels of the value of new gold fabricated into jewellery between 1982 and 1989 show an increase from $9.1bn to $17.3bn, a rise of 90 per cent overall or an average annual increase of 9.6 per cent," says the review.

Looking ahead two years, Ms O'Connell suggests the gold price is likely to peak in the first part of 1991 but does not expect it to clear $450 an ounce.

She predicts that the price will range between $360 and $440 an ounce this year, with the average being in the region of $390. Next year the price range is likely to be between $380 and $450 an ounce and the average between $400 and $410.

"This implies that, compared with the 1989 average, real prices will be broadly maintained but not improved upon," the review points out.

In coming to its gold price conclusions, Shearson assumed that there would be no significant global inflation and that, while the US dollar was forecast to weaken during 1990, it would change its trend in the first quarter of 1991.

Shearson predicts western mine production, which increased by 6.6 per cent or 105 tonnes in 1989 to 1,639.7 tonnes, will rise by 55 tonnes or 3.4 per cent this year and a further 3.6 per cent to 1,740.2 tonnes in 1991. This compares with an average growth rate of 6.9 per cent between 1982 and 1989.

"Annual Review of the world gold industry 1990," £500 or $1,000 to non-clients from Shearson Lehman Hutton, One Broadgate, London EC2M 7HA.

Peruvian miners back at work

By Sally Bowen in Lima

MINERS AT American-owned Southern Peru Copper Company returned to work on Friday on the orders of the Government after an eight-week strike which had closed down all company installations. The stoppage cost SPCC around $80m in lost production, according to Peru's Minister of Labour.

The Labour Ministry issued a Supreme Decree on 1 May instructing miners to resume normal working within 48 hours and ordering the company to reinstate some 60 sacked workers. New pay levels, the cause of the strike, have not yet been agreed, however, and negotiations are to resume on Wednesday according to union officials. They claim that the most recent SPCC pay offer is under two-thirds of what colleagues in state-owned mines are earning.

Because of the return to work at SPCC, Peru's Federation of Miners, Steel and Metal Workers suspended their call for a three-day national stoppage planned for 7 to 9 May.

All three SPCC installations, the Cuajone and Toquepala copper mines and the refinery at Ilo in the south of Peru towards the border with Chile, have been idle since 12 March. The company is Peru's biggest producer of copper, and normally accounts for some two-thirds of total national output, about 233,000 tonnes last year. But March output fell to 8,800 tonnes from 19,000 tonnes in the same month last year, and April it was zero. The company has declared force majeure on all shipments for the entire month of May.

In spite of the return to work, an SPCC union leader said in Lima on Saturday that the 5,000 company workers would be out again if this week's negotiations prove unsuccessful. Miners at the large state-owned copper producer Centromin are also threatening a strike from 14 May if their third quarter pay demands are not met.

Strike halts world's biggest export coal mine

By Gerard McCloskey

COLOMBIA'S EL Cerrejon coal mine – by far the world's biggest export mine – has been hit by a strike stopping all production and movement of coal to its export terminal at Porto Bolivar.

The strike is now well into its second week but so far exports have not been curtailed. The operator of the mine, Exxon subsidiary Intercor, believes it has sufficient coal at the port to load vessels until the middle of May. Were the strike to last beyond that time few, if any, customers would be troubled. Most of the coal is sold in Europe where National Power and Powergen are among the biggest buyers, each due to take 1m tonnes this financial year.

Large stockpiles of steam coal have been building up both in Australia and in Europe. Prices for Australian coal have been falling and in Taiwan and South Korea it has recently displaced South African tonnages.

While the strike may not inconvenience Exxon and its Colombian partner, state coal company Carbocol, it will certainly embarrass them.

This is the first strike to hit the mine since its start-up in the mid-1980s and it will inevitably blemish the image of Colombia as a supplier.

Plans are in place for the development of at least three further major export mines as well as for the expansion of El Cerrejon from its current annual exports of 12m tonnes to at least 15m tonnes.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,725-1,780 (1,740-1,790).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 3.75-4.20 (3.90-4.20).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 4.00-4.20 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 8.00-8.30 (8.10-8.30).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 215-230 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.05-3.10 (3.15-3.20).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.00.

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 40-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 3.95-4.15 (4.10-4.30).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.00 (same).

WORLD COMMODITIES PRICES

MARKET REPORT

COCOA prices tumbled in London in the afternoon following a technically inspired retreat in New York. July cocoa closed at £823 a tonne, a fall of £49 on Friday's close and the lowest level since April 3. Dealers said there was no physical or fundamental news to explain the movement. "It seems people were longer on balance and tried to take profits...this liquidation came into a thin market with not enough buying interest," one said. Some industry buying is expected at these levels, with support seen around £800 a tonne. On the LME copper moved ahead in the afternoon as Comex prices picked up. Analysts said the London market was aided by Comex establishing sound chart support at 109.5 cents a lb for May, but further short-term volatility is expected in the widely based $2,420 to $2,520 a tonne support-resistance band until the nearby supply position becomes clearer. The market also remains underpinned by options-related tightness for May delivery. In Chicago pork bellies were limit down by midsession after a wave of commission house profit taking. The market was due for a correction after recent gains, traders said.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$14.90-4.72x	+0.49
Brent Blend	$16.90-6.95x	+0.45
W.T.I. (1 pm est)	$18.48-8.50x	+0.40
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$218-220	+4
Gas Oil	$155-156	-3
Heavy Fuel Oil	$78-79	-2.5
Naphtha	$150-152	+0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$369.50	-0.75
Silver (per troy oz)♣	501c	-6.00
Platinum (per troy oz)	$482.00	-2.75
Palladium (per troy oz)	$119.60	-1.60
Aluminium (free market)	$1450	+5
Copper (US Producer)	121c	-4
Lead (US Producer)	45c	
Nickel (free market)	415c	-10
Tin (Kuala Lumpur market)	17.05r	+0.03
Tin (New York)	298.5c	+1.00
Zinc (US Prime Western)	87.25c	+0.25
Cattle (live weight)†	109.99p	-1.26*
Sheep (dead weight)†	193.15p	-40.5*
Pigs (live weight)†	94.89p	-6.73*
London daily sugar (raw)	$354.8t	-19.4
London daily sugar (white)	$441.0t	-15.5
Tate and Lyle export price	£326.50	-18.5
Barley (English feed)	£120.5u	
Maize (US No. 3 yellow)	£142t	
Wheat (US Dark Northern)	£123.5y	-1.5
Rubber (Jun)♥	67.00p	-1.00
Rubber (Jul)♥	57.50p	-1.00
Rubber (KL RSS No 1 May)	231.0m	
Coconut oil (Philippines)§	$370v	+20.0
Palm Oil (Malaysian)§	$290.0y	+17.5
Copra (Philippines)§	$240y	
Soyabeans (US)	£171u	-1.00
Cotton "A" index	84.60c	+0.80
Woollops (64s Super)	557p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. x-Jun. t-May/Jun. u-Oct/Dec. v-May/Jul. w-Apr/May. z-Jun/Jul y-May. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX		($ per tonne)	
Raw	Close	Previous	High/Low
Aug	334.60	325.40	334.40
Oct	331.00	323.00	330.40 324.80
Dec	327.00		321.00
White	Close	Previous	High/Low
Aug	442.0	428.5	442.0 432.0
Oct	407.0	393.5	405.5 397.0
Dec	400.0	387.5	393.0 392.0
Mar	395.0	383.5	386.5 386.0
May	393.5	382.5	385.5

Turnover: Raw 4437 (7590)lots of 50 tonnes. White 2343 (3071)
Paris- White (FFr per tonne): Aug 2430, Oct 2245, Dec 2201, Mar 2180, May 2167

CRUDE OIL – IPE			$/barrel
	Latest	Previous	High/Low
Jun	18.96	18.55	17.00 16.70
Jul	17.39	17.02	17.45 17.30
Aug	17.69	17.38	17.65 17.60
IPE Index	16.48	17.07	

Turnover: 8941 (13558)

GAS OIL – IPE			$/tonne
	Latest	Previous	High/Low
May	156.75	158.25	158.25 156.00
Jun	153.00	150.00	153.25 151.25
Jul	152.00	149.75	152.50 150.50
Aug	153.50	152.00	154.25 153.00
Sep	155.75	154.00	156.00 155.25
Oct	156.00	156.00	157.50 157.50
Nov	160.25	158.25	159.50 159.25
Dec	161.50	159.50	161.00 160.00

Turnover 11986 (12182)lots of 100 tonnes

COTTON
Liverpool- Spot and shipment sales in Liverpool for the week ended 4 May amounted to 553 tonnes against 120 tonnes in the previous week. Trading was moderate with sales occuring in Russian and Purivan growths.
JUTE
May/June c and f Dundee BTC $565, BWC $590, BTD $540, BWD $550; c and f Antwerp BTC $560, BWC $550, BTD $530, BWD $520.

COCOA – London FOX			£/tonne
	Close	Previous	High/Low
May	820	854	849 815
Jul	823	872	866 820
Sep	841	886	881 840
Dec	860	905	897 859
Mar	880	923	917 879
May	897	939	930 896
Jul	912	951	943 910

Turnover: 8950 (1516) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 4 1049.57 (1044.71) 10 day average for May 8 1036.50 (1041.16)

COFFEE – London FOX			£/tonne
	Close	Previous	High/Low
May	643	638	641 635
Jul	659	656	659 660
Sep	668	667	670 661
Nov	686	682	684 678
Jan	700	696	698 690
Mar	710	710	712 705
May	722	727	725 717

turnover: 2478 (2405) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 7: Comp. daily 72.24 (72.18). 15 day average 73.88 (74.23)

POTATOES – BFE			£/tonne
	Close	Previous	High/Low
May	240.0	245.0	237.4 230.0
Nov	135.0	135.0	132.0 130.0
Apr	186.5	191.0	195.0 186.5

Turnover 231 (414) lots of 40 tonnes.

SOYABEAN MEAL – BFE			£/tonne
	Close	Previous	High/Low
Oct	128.60	130.5	128.50
Dec	133.50		133.50

Turnover 28 (45) lots of 20 tonnes.

FREIGHT FUTURES – BFE			$10/index point
	Close	Previous	High/Low
May	1342	1329	1345 1335
Jun	1250	1216	1250 1235
Jul	1141	1128	1145 1131
BFI	1330	1340	

Turnover 246 (112)

GRAINS – BFE			£/tonne
Wheat	Close	Previous	High/Low
May	119.85	120.50	120.50 120.25
Jun	121.00	122.00	122.00 121.65
Nov	117.40	117.60	118.05 117.40
Jan	120.85	120.85	121.15 121.10
Mar	124.00	124.20	124.45
May	126.90	127.00	127.25
Barley	Close	Previous	High/Low
Nov	116.30	116.30	116.30
Jan	119.70	119.70	119.70

Turnover: Wheat 317 (458), Barley 22 (73).
Turnover lots of 100 tonnes.

PIGS – BFE		(Cash Settlement) p/kg	
	Close	Previous	High/Low
Jun	123.0	124.5	123.5 123.0

Turnover 27 (4) lots of 3,250 kg

LONDON METAL EXCHANGE					(Prices supplied by Amalgamated Metal Trading)	
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 44,637 tonne
Cash	1497-9	1489-1		1496-7		
3 months	1517-8	1506-9	1518/1506	1512-5	1516-20	10,675 lots
Copper, Grade A (£ per tonne)						Ring turnover 80,027 tonne
Cash	1660-5	1630-5	1660/1613	1619-21		
3 months	1509-10	1500-1	1514/1489	1497-8	1511-2	25,725 lots
Lead (£ per tonne)						Ring turnover 10,135 tonne
Cash	465-7	467-9	467	467.5-8		
3 months	484-5	486-8	485/484	484-5	484-5	4,125 lots
Nickel ($ per tonne)						Ring turnover 7,447 tonne
Cash	8950-75	9100-50	9000/8950	8925-50		
3 months	8725-45	8850-75	8800/8725	8725-50	8725-50	1,552 lots
Tin ($ per tonne)						Ring turnover 6,133 tonne
Cash	6420-5	6405-15	6420	6420-2		
3 months	6530-40	6520-5	6550/6530	6530-40	6540-50	245 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 15,951 tonne
Cash	1788-90	1755-7	1790/1780	1790-5		
3 months	1683-5	1683-5	1700/1675	1690-2	1685-6	12,460 lots

LME Closing £/$ rate:
SPOT: 1.6700 3 months: 1.6972 6 months: 1.6702 9 months: 1.6486

LONDON BULLION MARKET		
Gold (fine oz)	$ price	£ equivalent
Close	369¼-369¾	220¼-221¼
Opening	372½-373	223¼-223¾
Morning fix	372.10	222.282
Afternoon fix	370.85	221.973
Day's high	372¾-373¼	
Day's low	368½-369	
Coins	$ price	£ equivalent
Mapleleaf	379-384	226¾-229¾
Britannia	379-384	226¾-229¾
US Eagle	379-384	226¾-229¾
Angel	379-384	226¾-229¾
Krugerrand	368-371	220-222
New Sov.	87¼-89¼	52-53½
Old Sov.	87¼-89¼	52-53½
Noble Plat	487.75-495.50	292.10-296.70
Silver fix	p/fine oz	US cts equiv
Spot	300.75	503.25
3 months	312.25	514.05
6 months	324.00	525.35
12 months	347.05	548.40

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	July	Sep	July	Sep
1400	124	141	7	20
1500	54	77	38	64
1600	17	37	99	110
Copper (Grade A)	Calls		Puts	
2400	179	140	47	86
2500	120	95	85	150
2600	75	61	136	214
Coffee	Jul	Sep	Jul	Sep
600	66	85	8	37
650	33	54	25	67
700	14	34	56	104
Cocoa	Jul	Sep	Jul	Sep
750	80	105	8	15
800	45	71	23	31
850	23	45	51	55
Brent Crude	Jun	Jul	Jun	Jul
1650				
1700		65	23	
1750	41	45		57

New York

GOLD 100 troy oz.; $/troy oz.			
	Close	Previous	High/Low
May	370.0	371.9	372.5 372.3
Jun	372.0	374.0	375.8 370.5
Jul	374.4	376.4	0 0
Aug	376.8	378.8	380.0 376.0
Oct	381.9	383.9	0 0
Feb	391.9	393.9	392.1 392.2
Apr	396.8	398.8	0 0
Jun	402.1	404.1	405.0 401.0

PLATINUM 50 troy oz; $/troy oz.			
	Close	Previous	High/Low
May	474.0	477.9	474.0 474.0
Jul	479.5	484.6	485.0 478.0
Oct	486.0	491.2	489.0 482.0
Jan	498.0	497.6	498.0 488.0

SILVER 5,000 troy oz; cents/troy oz.			
	Close	Previous	High/Low
May	498.9	501.6	502.5 497.5
Jun	501.8	504.8	0 0
Jul	505.8	508.8	510.0 504.0
Sep	514.5	517.5	518.5 512.5
Dec	526.4	529.4	531.0 524.0
Jan	530.3	533.3	0 0
Mar	538.1	541.1	545.0 537.0
May	546.4	549.4	0 0
Jul	554.8	557.8	0 0

HIGH GRADE COPPER 25,000 lbs; cents/lbs			
	Close	Previous	High/Low
May	120.40	117.20	120.50 117.00
Jun	118.40	113.65	118.50 115.90
Jul	112.15	109.55	112.40 110.10
Aug	108.95	106.65	108.95 108.90
Sep	107.85	105.65	108.20 106.60
Oct	106.55	104.55	0 0
Nov	105.25	103.40	0 0
Dec	103.95	102.25	103.75 102.00
Jan	102.95	101.40	0 0

CRUDE OIL (Light) 42,000 US galls $/barrel			
	Latest	Previous	High/Low
Jun	18.53	18.27	18.58 18.26
Jul	19.13	18.86	19.14 18.82
Aug	19.49	19.29	19.50 19.26
Oct	19.97	19.82	20.02 19.93
Nov	20.01	20.01	20.10 19.95
Jan	19.87	20.02	20.08 19.95
Feb	19.99	20.01	20.10 19.95
Mar	19.96	20.01	0

HEATING OIL 42,000 US galls, cents/US galls			
	Latest	Previous	High/Low
Jul	5136	5036	5140 5040
Sep	5365	5288	5365 5310
Oct	5441	5363	5460 5400
Nov	5532	5478	5555 5510
Dec	5631	5573	5645 5600
Jan	5666	5613	5660 5600
Feb	5525	5538	5525 5500
Mar	5480	5383	5480 0

COCOA 10 tonnes;$/tonnes			
	Close	Previous	High/Low
May	1215	1285	1295 1215
Jul	1235	1325	1298 1225
Sep	1280	1314	1330 1255
Dec	1285	1341	1343 1281
Mar	1330	1371	0 0
May	1367	1391	0 0
Jul	1415	0	0 0

COFFEE "C" 37,500lbs; cents/lbs			
	Close	Previous	High/Low
May	91.65	91.02	92.15 91.10
Jul	93.01	92.27	93.70 92.40
Sep	95.30	94.35	96.30 94.60
Dec	97.40	95.85	97.50 96.75
Mar	98.48	98.85	99.38 98.30
May	101.35	100.50	101.50 0
Jul	102.75	102.00	0 0
Sep	103.00	103.76	105.00 0

SUGAR WORLD "11" 112,000 lbs; cents/lbs			
	Close	Previous	High/Low
Jul	14.79	14.60	14.79 14.60
Oct	14.79	14.55	14.80 14.59
Jan	14.35	14.10	14.31 14.13
Mar	14.35	14.05	14.40 14.15
May	14.79	14.56	14.80 14.59

COTTON 50,000; cents/lbs			
	Close	Previous	High/Low
May	74.10	74.20	74.85 73.70
Jul	74.40	74.52	74.84 74.02
Oct	73.03	72.85	73.15 72.55
Dec	67.20	67.10	67.65 67.15
Mar	68.47	67.90	68.50 0
May	69.00	68.40	0 0
Jul	69.00	68.20	0 0

ORANGE JUICE 15,000 lbs; cents/lbs			
	Close	Previous	High/Low
May	195.80	193.00	197.50 194.15
Jul	191.80	191.75	192.50 188.50
Sep	180.60	184.60	183.75 180.50
Nov	181.60	179.45	181.60 178.80
Jan	177.00	176.00	0 0
Mar	177.00	176.65	0 0
May	177.00	176.65	0 0
Jul	177.00	176.65	0 0

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	May 8	May 4	mnth ago	yr ago
	1912.5	1921.0	1927.3	2007.3
DOW JONES (Base: Dec. 31 1974 = 100)				
	May 4	May 3	mnth ago	yr ago
Spot	135.17	134.80	133.25	138.26
Futures	135.70	135.66	134.21	138.73

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel			
	Close	Previous	High/Low
May	633/4	637/0	641/0 631/0
Jul	646/4	650/6	656/4 645/4
Aug	653/0	657/0	660/0 650/0
Sep	654/2	657/4	663/0 652/0
Nov	661/4	663/4	671/0 660/2
Jan	672/2	673/2	681/0 671/0
Mar	683/4	685/0	691/0 681/4

SOYABEAN OIL 60,000 lbs; cents/lb			
	Close	Previous	High/Low
May	24.03	24.14	24.27 23.98
Jul	24.07	24.35	24.54 24.04
Aug	23.96	24.13	24.30 23.95
Sep	23.78	23.90	24.00 23.75
Oct	23.46	23.62	23.70 23.40
Dec	23.27	23.41	23.58 23.25
Jan	23.08	23.25	23.25 23.08
Mar	22.95	23.05	23.12 22.95

SOYABEAN MEAL 100 tons; $/ton			
	Close	Previous	High/Low
May	183.9	183.9	186.0 183.0
Jul	186.1	186.3	187.7 187.2
Aug	190.1	190.1	191.5 189.0
Sep	191.8	192.0	194.5 191.3
Oct	193.0	193.0	195.5 193.0
Dec	197.5	197.5	200.5 197.0
Jan	199.6	199.6	201.5 199.3

MAIZE 5,000 bu min; cents/56lb bushel			
	Close	Previous	High/Low
May	289/0	290/6	292/2 288/0
Jul	291/4	291/2	293/2 290/0
Sep	276/4	276/2	278/2 275/4
Dec	271/4	271/6	273/4 270/4
Mar	276/4	276/6	278/6 275/4
May	279/6	279/6	281/6 279/6
Jul	281/2	281/2	282/4 281/0

WHEAT 5,000 bu min; cents/60lb-bushel			
	Close	Previous	High/Low
May	379/0	378/0	384/2 377/2
Jul	348/2	350/2	354/4 348/0
Sep	355/0	358/0	360/6 352/0
Dec	366/4	368/4	370/4 365/0
Mar	371/4	374/0	374/4 370/2
May	364/0	370/4	371/4 364/0

LIVE CATTLE 40,000 lbs; cents/lbs			
	Close	Previous	High/Low
Jun	73.92	75.20	75.42 73.75
Aug	71.82	72.77	72.87 71.55
Oct	74.05	74.25	74.50 73.95
Dec	74.63	75.35	75.60 74.60
Feb	74.90	75.50	75.82 74.85
Apr	75.10	75.95	76.17 75.10
Jun	74.00	74.85	74.80 74.00

LIVE HOGS 30,000 lb; cents/lbs			
	Close	Previous	High/Low
Jun	63.57	64.90	65.45 63.50
Jul	62.62	64.30	64.75 62.60
Aug	60.97	62.37	62.95 60.97
Oct	53.85	54.82	55.35 53.85
Dec	53.72	54.62	54.95 53.65
Feb	50.70	51.60	51.75 50.70
Apr	47.75	48.35	48.47 47.60
Jun	50.70	51.30	51.40 50.70

PORK BELLIES 40,000 lbs; cents/lb			
	Close	Previous	High/Low
May	68.30	70.30	71.10 68.30
Jul	68.30	70.30	71.60 68.30
Aug	66.50	68.50	69.50 66.50
Feb	67.85	69.85	69.50 67.85
Mar	67.85	69.65	69.85 67.85
May	66.85	68.85	68.60 66.85

LONDON STOCK EXCHANGE

Equities close higher but below best

SHARE PRICES on the London equity market bounded ahead yesterday, with the FT-SE 100 Index moving closer to 2,200 and extending the rally which commenced last week.

By the close of a session highlighted by some big price movements but a marked lack of actual business and enthusiasm, the index had clawed its way back to levels last seen before it suffered from such damaging events as Hoylake withdrawing its bid for Bats – the biggest-ever bid for a UK company – the Midland Bank profits warning and the March trade figures.

Dealers attributed the steep rise in share prices partly to technical factors – most notably a severe stock shortage – as well as good performances over the UK holiday period by Wall Street and Tokyo and some encouraging UK economic data.

In the background, Mr John Major, the Chancellor of the Exchequer, speaking in Washington, indicated that demand in the UK was slowing in response to high interest rates and that the latter could well move down next year.

The equity market opened with big gains across the board, with much of its impetus coming from the Futures market, where the Footsie future moved to a 33 points premium to the cash market. Both the futures and the underlying market peaked at midday when a decline in the Footsie future triggered a similar move by stock prices.

The final figure for March retail sales and for consumer credit for the same month were seen by dealers as confirming expectations of a slowing in the economy and played their part in helping market sentiment.

At midday, however, the market began to falter, suffering from minimal turnover levels and some profit-taking sales.

At the close, the FT-SE 100 share index was 19.8 higher at 2,182.0, having touched a day's high of 2,192.3 at midday.

Commenting on the day's business, a trader with one of the leading UK securities houses said the rise in the Footsie was unrepresentative of the day's turnover. This totalled only 307.1m shares, well down on last Friday's 437.5m and Thursday's 392.8m. "Our business has split 50 per cent buying and 50 per cent selling; one or two unit trusts chased the market early on but there was precious little after that early flurry," he said. "Everything now hinges on Friday's RPI figure, which everyone is talking to be 10 per cent or above."

Mr Kevin Adams of stockbroker Hoare Govett expected an inflation figure of 9.7 per cent but added that "once this hurdle is out of the way, and with the market still very attractively valued, it may be possible to start taking the first tentative steps towards our year-end target of 2,800."

Account Dealing Dates			
First Dealings	Apr 30	May 14	May 29
Option Declarations	May 10	May 24	Jun 7
Last Dealings	May 11	May 25	Jun 8
Account Day	May 21	Jun 4	Jun 18

"New time dealings may take place from 9.00 am two business days earlier.

Berisford on bid alert

BERISFORD International, the commodities group, gained 5 to 137p on Irish press reports that Mr Larry Goodman, the Irish businessman who owns a 13 per cent stake, was on the verge of launching a bid.

According to the report, Mr Goodman had lined up finance from French, Irish and Japanese banks. Analysts said that if Mr Goodman did bid for Berisford he would retain British Sugar, the core of the group, and dispose of the rest.

Mr David Lang of Henderson Crosthwaite said: "This story has got a bit of a ring to it. It is the latest and most authentic report of Goodman's interest in making a bid. It indicates that the pot is boiling and Mr Goodman wants to be involved."

Mr Lang, however, said he was cautious of press reports that Mr Goodman would bid 180p, or £900m, for Berisford. He added that if Mr Goodman did bid he might have to follow the path of the Tate & Lyle offer with a referral to the Office of Fair Trading.

The speculation came as Tate waited for the OFT to advise Mr Nicholas Ridley, the Secretary of State for Trade and Industry, on whether to refer its planned bid to the Monopolies and Mergers Commission. Most analysts believed a referral was likely. Tate shed a penny to 271p.

Non-voting shares

Press comment on the possibility of new European laws intended to make it easier for companies to be taken over boosted restricted voting stock of companies controlled by tightly held blocks of full-voting shares.

The main beneficiaries among FT-SE stocks were Great Universal Stores and Whitbread. Both are subject to occasional bouts of speculation that their restricted voting "A" shares might be enfranchised. Yesterday's hopes added 37 to the price of GUS "A", which closed at 967p, and 10 to Whitbread, at 379p. The latter had peaked at 383p. Turnover in both was unexceptional.

Analysts were cautious on the prospects for enfranchisement, however. Mr Geoff Collyer of the brewery research team at County NatWest spoke for many when he argued that any changes would be a long time in coming and might face difficulties from countries where barriers to takeover were traditionally high.

Banks generally advanced with the market. Any unusual performances, said dealers, reflected covering of either short or long positions in the market. Barclays stock was hard to come by and the shares were 18 better at one point. But the price rise flushed out sellers and the stock closed 7 better on the day at 540p.

There were plentiful supplies of Abbey National, TSB and Royal Bank of Scotland. The shares marked time after the rises of last week. Abbey shed a penny to 191p, while TSB and Royal Bank were unchanged at 133p and 167p respectively.

Composite insurers found support ahead of their first-quarter reporting season. General Accident, figures due on Thursday, added 12 at 1043p, while Commercial Union, which reports on May 16, was 2 harder at 460p. Royal Insurance, 8 to the good at 450p, reports the following day.

Among insurance brokers, Sedgwick climbed 8 to 267p. The company announces first-quarter figures on May 15.

Tarmac was the most heavily traded stock in the construction sector with turnover of 4.3m shares. Investors may have been drawn by the slightly brighter outlook for interest rates, and several sizeable trades were recorded. The shares, however, failed to hold the highest level and closed only 3 firmer at 234p.

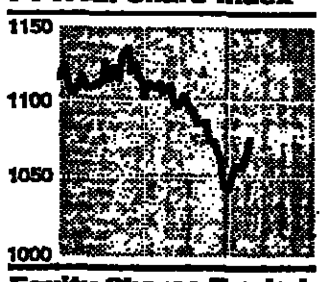
Larger gains were established by EMC, 10 dearer at 615p, and Taylor Woodrow, which rose 6 to 274p.

Redland became a fashionable and rose 8 to 559p following a report of expansion in eastern Europe. It was suggested that the group's West German subsidiary was close to clinching minority partnerships in the building of two new roof tiling plants in the Soviet Union and Poland, and in the modernisation of three existing factories located in East Germany.

Trafalgar House moved with the market, closing 2 up at 296p as the market awaited interim figures expected today. Analysts predictions of profits ranged from £115m to £118m. Mr Robert Gibson at Robert Fleming Securities forecast profits of £117m. He said: "I think the picture you will see is a strong performance in the shipping and hotels sector, and the construction engineering sector offset by a weak performance in the property and housing sectors."

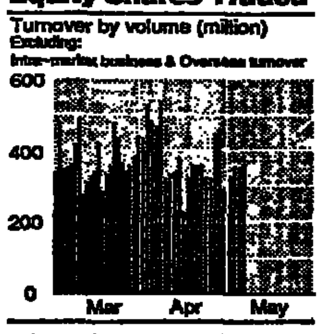
Two-way business of 3.1m shares was recorded in BTR, which added a penny at 390p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



A stock overhang from last week combined with a lack of interest made Pilkington one of only a handful of stocks to move against the market trend. The shares closed 3 lower at 191p on turnover of 1.2m shares. Heywood Williams, thought to be a prospective bid target for Pilkington, added a further 5 at 267p.

Profit-taking after last week's good run, which followed better-than-expected first-quarter figures, was noted in ICI and the close was 3 easier at 1105p.

BOC also lost ground, easing up 4 to 620p ahead of Thursday's interim figures.

A buy recommendation from UBS Phillips & Drew helped turnover in Racal Electronics expand to 4.7m. The shares at one time rose to 200p, a gain of 6, but came off the day's high to close a net 3 ahead at 197p.

Pointing out that it saw a prospect of a recovery of non-telecom profits over 1990-91, UBS said: "We believe the market is significantly undervaluing the group."

News that France had liberalised its stance on private telecommunications circuits helped sentiment among cellular telephone operators. The news not only helped Racal Electronics but was said to have spilled over into Racal Telecom, its sister company, which closed 6 up at 241p.

Also benefiting from that sentiment was Cable and Wireless, which firmed 8 to 484p on turnover of 2.5m shares.

Nomura now rates C and W shares a long term buy and found it to be "operating in a huge market growing rapidly." It added: "It has a unique experience in operating in international markets and can be expected to become involved in many areas of the world market, which are just opening themselves up to new telecommunications service providers."

A current trading statement from Dixons helped the shares add 6 at 126p. The company said it would beat the profits forecast it made in January.

Mr Mark Husson of Morgan Stanley said that profit forecasts made as part of a bid defence, such as the January figure, tended to be at the top end of the range. Mr Husson raised his profits forecast for the current year from £83m to £87m. A Monopolies and Mergers Commission report on a bid for Dixons from Kingfisher is being considered by the Secretary of State for Trade and Industry.

Unigate, the dairy products group, improved 6 to 268p following news that Associated British Foods, 2 better at 378p, had built up a 2 per cent stake. But that a full bid by A.B. Foods was unlikely. Mr David Atkinson of County NatWest said it was more likely that A.B. Foods had taken an investment stake. "It has probably taken the view that someone else will at some stage bid for Unigate," he added.

Speyhawk, the property developer, recovered 24 to 130p after Friday's buffeting. Comments by Mr Trevor Osborne, Speyhawk's chairman, in a Saturday newspaper that the company would buy back its shares helped sentiment and encouraged modest buying.

UK Land gained 20 at 338p following an increase in net asset value at the interim stage to 750p per share from 724p last time. Mr Andrew Walker of BZW said the production of a balance sheet by UK Land at the interim stage would help to allay worries in the market that the property company was in difficulty.

Some hefty trades on the overnight ticker in Saatchi & Saatchi rekindled bid speculation. Suggested predators were French, namely Eurocom, which has had close business dealings with UK agency WCRS (now called Aegis), and publishing giant Havas. Efforts on the part of analysts to check the rumours were thwarted by a French public holiday. Saatchi climbed to 120p in early trade, but eased during the day to close at 118p, still a net rise of 11.

Reed International climbed 11 to 393p, reflecting, said dealers, the probable placing late on Friday of a line of more than 1m shares which had been overhanging the market during the week.

British Aerospace bucked the market trend, giving up 4 to 509p. The shares were hurt by weekend press reports that the company had negotiated with the UK Government a near monopoly position for the supply of ammunition and explosives at the time of its 1987 purchase of Royal Ordnance.

The market took this as a signal that the company was likely to become embroiled in more political problems, adding to the fire it drew with the revelation that BAe had received £38m in "sweeteners" as part of its purchase of Rover Group, its car manufacturing subsidiary. Last month's 12.7 per cent fall in new car sales also affected sentiment.

Turnover in Rolls-Royce swelled to a hefty 9.6m shares, while the price closed a shade easier at 199p, having retreated from a day's high of 201p. Dealers talked of general two-way business.

The company announced it had won an order to supply the engines for a fleet of 727 aircraft belonging to United Parcel Service, the largest small package carrier in the US, in a deal estimated to be worth over £600m.

Oil and gas issues made good progress across the board, sustained by firm crude oil prices, but tended to underperform the rest of an impressive equity market.

The biggest turnover – 7.2m shares – was in British Gas, which settled a further 2½ higher at 204½p, with dealers and sector specialists said to be expecting imminent news regarding cost cutting moves.

BP, due to reveal first-quarter numbers on Thursday – Hoare Govett, BP's broker, was going for net income of £385m, against a comparable £608m, with no change in the quarterly dividend – was finally unchanged at 320p on a poor turnover of 2.4m. Shell managed a minor gain at 445p.

Burmah moved up 7 to 577p in thin turnover, while LASMO were 9 better at 375p, although there were no immediate stories pushing the shares higher.

Investors' enthusiasm for Brent Walker showed no sign of abating in front of today's annual results. The shares advanced 23 more to 302p, a rise of 30 per cent from last month's three-year low against the market.

A renewed rejection by the board of Midsummer Leisure, which runs public houses and snooker clubs, of the bid from European Leisure, the night club and theme bars group, led to a brief flurry in the former's shares. They eventually settled 2 down on the day at 118p, having touched 123p. Turnover was 687,000.

European Leisure closed unchanged at 63p, with a mere 8,000 shares traded. The closing date for the bid is May 11.

Blenheim Exhibitions climbed 10 to 815p ahead of interim figures, due on Friday.

Irish-based R & H Hall, a company involved in the importation, storage and distribution of grain and feed ingredients, responded to an offer from IAWS of shares plus cash by rising to 193p, before closing 10 up on the day at 189p.

Mr Philip Lynch, managing director of IAWS, said: "We are committed to building a major Irish-based food and agribusinessgroup which can bring major benefits to the Irish economy and generate additional earnings from strategic overseas investments."

Sharply higher annual profits took Jackson Group up 10 to 118p, while Cakebread Robey "A" improved 2 to 75p awaiting tomorrow's preliminary statement.

On the other hand, McCarthy & Stone, 42p, remained nervous in front of Friday's interim figures.

■ Other Market statistics, including the FT-Actuaries share index, Page 30

FINANCIAL TIMES STOCK INDICES

	May 8	May 4	May 3	May 2	May 1	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.24	75.98	74.89	74.27	74.51	86.52	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	85.18	85.35	84.74	84.59	84.37	97.54	92.91 (8/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1710.1	1699.8	1676.6	1678.0	1663.5	1767.8	1963.3 (3/1)	1653.5 (30/4)	2008.6 (5/9/89)	49.4 (26/6.40)
Gold Mines	227.0	215.6	215.5	219.5	219.0	174.4	378.5 (8/2)	215.9 (3/5)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2182.0	2162.2	2134.9	2137.6	2117.9	2125.1	2463.7 (3/1)	2103.4 (30/4)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.31	5.35	5.41	5.41	5.44	4.42				
Earning Yld % (full)	11.90	11.00	12.12	12.11	12.10	10.77				
P/E Ratio(Net)(*)	10.14	10.07	9.96	9.97	9.93	11.21				
SEAQ Bargains 4.45pm	21,786	20,327	18,245	20,174	19,615	26,024				
Equity Turnover(£m)†	-	785.64	705.55	747.87	622.90	1274.28				
Equity Bargains†	-	19,442	17,836	20,159	10,439	30,663				
Shares Traded (ml)†	-	337.0	264.7	355.6	322.6	528.0				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. * Nil 10.04

Ordinary Share Index, Hourly changes — Day's High 1718.6 — Day's Low 1704.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1704.5	1710.5	1708.7	1710.6	1716.6	1714.7	1714.8	1711.2	1711.7

FT-SE, Hourly changes — Day's High 2192.3 — Day's Low 2173.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2173.3	2182.6	2181.2	2184.0	2192.3	2189.2	2188.8	2184.9	2183.7

GILT EDGED ACTIVITY

Indices	May 7	May 4
Gilt Edged Bargains	-	93.4
5-Day average	-	83.2

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT index of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request. London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
Brit. Aerospace	1,200	509	-4	Harrisons Crosfield	808	160	+1	Reckitt & Colman	240	1159	+5	Trusthouse Forte	2,400	254	+4
British Airways	2,100	186	+3	Hawker Sidd.	684	619		Redland	842	559	+8	Ultramar	746	332	+8
British Gas	7,200	204½	+2½	Hillsdown	1,800	240	+3	Reed Intl.	606	393	+11	Unigate	471	268	+6
British Land	247	342	+6	IMI	78	227	+1	Reuters	519	1119	-5	Unilever	802	687	+1
BP	2,400	320		ICI	529	1105	-3	Rolls Royce	9,600	199	-½	United Biscuits	1,800	322	+8
British Steel	5,100	142	+1	Inchcape	286	252	+1	Rothmans	349	660	+13	Utd. Newspapers	253	328	+6
British Telecom	8,200	282	+2½	Kingfisher	125	393	+8	Ryl Bk Scotland	1,310	167		Water Package Uts.	8	£1445	+37
Bunzl	1,210	98		Ladbroke	1,600	280	+6½	Royal Insurance	1,600	450	+8	Wellcome	667	650	+4
Burmah Oil	479	577	+7	Land Securities	406	471	+6	RTZ	749	345		Welsh Water	254	153	+5
Burton	653	158	+5	Laporte	742	608	+8	Saatchi	2,400	118	+11	Wessex Water	57	149	+1
Cable & Wire.	2,500	484	+8	Legal & General	138	338	+7	Sainsbury	940	262	+3	Whitbread "A"	689	379	+10
Cadburys	560	312	+4	Lloyds Abbey	336	783	+1	Scottish & New.	258	294	+1	Williams Hldgs.	2,700	255	+4
Calor Group	139	282	+2	Lloyds Bank	1,600	275	+3	Sears	871	92	+2	Wolseley	252	271	+2
Carlton Comms.	252	608	+3	LASMO	669	375	+9	Sedgwick	408	267	+8	Wimpey	487	223	+4
Coats Viyella	1,800	113	+3	Lonrho	918	281	+1	Severn Trent Water	388	132	+6	Yorkshire Water	184	157	+5
Comm. Union	468	460	+2	Lucas	538	620	+10	Shell Transport	1,100	445	+1				

Earlier rows of this table (ADT, ASDA Group, Abbey National, Allied-Lyons, Amstrad, Anglian Water, Argos, Argyll Group, Ass. Brit. Foods, BAA, BAT Inds., BET, BICC, BOC, BPB Inds., BTR, Barclays, Bass, Beazer, Berisford Int., Blue Circle, Boots, Brit. & Comm., and the corresponding entries in the other columns): [illegible]

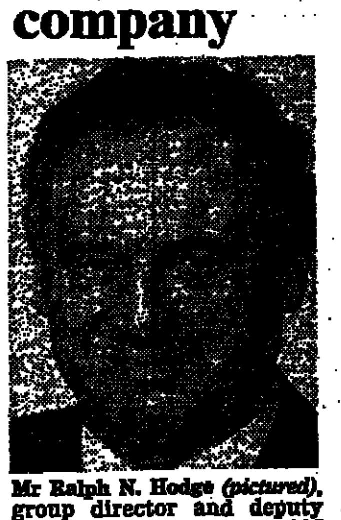
Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (59).
BRITISH FUNDS (3) CORPORATION LOANS (1) AMERICANS (1) BUILDINGS (2) ELECTRICALS (2) FOODS (2) INDUSTRIALS (3) Elan, Proudfoot, Schlumberger. INSURANCE (3) LEISURE (1) NEWSPAPERS (1) PAPERS (2) TRUSTS (6).
NEW LOWS (135).
AMERICANS (6) CANADIANS (4) BANKS (3) BREWERS (1) BUILDINGS (8) CHEMICALS (2) STORES (1) ELECTRICALS (8) ENGINEERING (7) FOODS (6) HOTELS (1) INDUSTRIALS (16) Armour Trust, Cargo Control, Claybithe, Cooper (Alan), Cowan de Groot, Lincoln House, London Finance & Invs., Novo Inds. "B", Oriflame, RKF Group, Rauma-Repola, Scott Robertson, Unigroup, Walker Greenbank, Wellcome. INSURANCE (1) LEISURE (4) MOTORS (6) PAPERS (2) PROPERTY (9) TEXTILES (1) TRUSTS (17) OILS (4) OVERSEAS TRADERS (2) MINES (13) THIRD MARKET (5).

APPOINTMENTS

New chief for ICI company



Mr Ralph N. Hodge (pictured), group director and deputy chief executive, ICI CHEMICALS & POLYMERS, will succeed Mr R.I. Lindsell as chief executive from August 1. Mr Lindsell retires on July 31. The company is the largest single grouping in ICI. It has an annual turnover of £4.5bn, with 30 manufacturing sites in nine countries, and 35,000 employees worldwide. It was formed in 1987 by the amalgamation of the Mond, petrochemicals and plastics, fibres, and agricultural divisions.

■ WALKER, CRIPS, WEDDLE, BECK, stockbrokers, has appointed Mr Nigel Simmonds as a director. He continues to manage its direct dealing service INVESTORLINK.

■ Mr Stephen Hynes has joined TRAFALGAR HOUSE ENVIRONMENTAL SERVICES as business development director. He was sales and marketing manager with Cory Waste Management.

■ Mr James Keir has been re-appointed as a part-time member of the MONOPOLIES AND MERGERS COMMISSION for a further two years until April 20, 1992. He was joint secretary of Unilever from 1976 until his retirement in 1984.

■ Mr Donald J. MacDonald, formerly deputy treasurer (cash management), Britoil, has been appointed corporate treasurer of RODIME, and to the board of Rodime Inc.

■ Mr Timothy Pratt has been appointed Deputy Treasury Solicitor. He will retain his present post as legal adviser to the Cabinet Office European Secretariat.

■ Dr Geoffrey May has been appointed managing director of BARTON ABRASIVES. He was director and general manager of Brush Fusegear, a Hawker Siddeley company.

■ Mr John Harris, director and company secretary of THE SOUTH STAFFORDSHIRE WATER CO, has been appointed managing director to succeed Mr Jim Carter on his retirement at the end of the year.

■ Mr T.E. Baker has been appointed a non-executive director of APPLEYARD GROUP. He was corporate banking director, Lloyds Bank.

■ TOOTAL GROUP has appointed Mr Trevor Jones as chief executive of its homewares division. He was managing diorector of subsidiary Cloverleaf.

■ Mr Peter Muir has been appointed chief executive and managing director of AVEBURY PROJECTS, Milton Keynes. He was a director of the Llewellyn Group.

■ Mr Michael J. Halsey has been appointed secretary of BROWN, SHIPLEY & CO. He was assistant secretary and takes over at the bank from Mr Robert C. Carefull who continues as secretary of Brown Shipley Holdings, and group finance director.

HERTZ INTERNATIONAL has appointed Mr Antoine Cau (pictured) as president, with responsibility for Hertz Europe, Middle East and Africa. He will be based at Cranford, Middlesex, and prior to this promotion was responsible for Hertz European rent-a-car operations.

■ Mr Michael Marks, chief executive of Smith New Court, Mr Carel Mosselmans, chairman, and Mr Amschel Rothschild, chief executive, both of Rothschild Asset Management, have been elected to the board of ROTHSCHILDS CONTINUATION, the UK holding company of the Rothschild Group.

Barclays top posts in Japan

BARCLAYS BANK has appointed Mr Alan Brown as country manager and director, Japan, in succession to Mr Michael Tomalin. Barclays de Zoete Wedd has appointed Mr Ben Grigsby as managing director of its operations in Japan in sucession to Mr Michael Connors.

Mr Brown is a corporate director in the corporate division of the bank in London, in charge of 11 industry teams. Mr Tomalin is returning to London to run the new financial institution unit. Mr Grigsby was co-chief executive officer of Barclays de Zoete Wedd Securities Inc, New York. Mr Connors returns to London in September as BZW's head of research.

Barclays de Zoete Wedd Securities has appointed Mr Jonathan Hudson as head of continental European equities. He previously headed the London-based European equities operation.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
99¾	96½	Treas. 3pc 1990	99¼xd		3.02	[illegible]
99½	97¾	Treas 8¼pc 1987-90‡‡	99½	+1/16	8.30	14.15
98½	97¼	Treas. 8pc Cv 1990 ‡‡	98½	+1/16	8.10	14.20
97¾	96½	Treas. 10pcCv 1990	97¾xd	+1/16	10.22	14.89
95¼	93¼	Exch 2½pc 1990	95¼xd	+1/16	2.61	10.83
98½	97¼	Treas 11¾pc 1991	98¼	+1/16	11.97	14.70
94½	92	Funding 5¾pc '87-91‡‡	94½	+1/16	6.08	12.25
92¾	89¾	Treas. 3pc 1991	92½xd	+1/16	3.24	10.76
96½	94½	Treas 10pc Cv '91 ‡‡	95½	+1/16	10.45	14.11
97½	94½	Exch. 11pc 1991	95½	+1/16	11.48	14.25
92½	90½	Treas. 8pc 1991	91½xd	+1/16	8.73	14.05
101¼	97½	Treas 12¾pc 1992‡‡	98¼	+1/16	12.98	13.99
96	92¼	Treas 10pc 1992	93¼	+1/16	10.67	14.07
91½	89¼	Treas. 8pc 1992 ‡‡	90½	+1/16	8.86	13.90
97½	93½	Treas 10½pc Cv 1992‡‡	94½	+1/16	11.13	13.88
84½	82½	Treas. 3pc 1992	84¼xd	+1/16	3.56	11.66
100½	95½	Exch. 12¼pc '92	96½	+1/16	12.43	13.88
104	98¼	Exch 13½pc 1992	99½	+1/16	13.56	13.75
91½	86¼	Treas 8¾pc 1993	88¼	+1/16	9.36	13.52
96¼	90¾	Treas 10pc 1993‡‡	92¼	+1/16	10.87	13.41
103½	96¼	Treas 12½pc 1993‡‡	97¼	+1/16	12.80	13.49
85½	82	Funding 6pc 1993‡‡	83¼	+1/16	7.20	12.26
107½	99¾	Treas 13¾pc 1993‡‡	101¼xd	+1/16	13.59	13.34
91	84¼	Treas. 8½pc 1994	86½	+1/16	9.86	13.35
111½	102¼	Treas 14½pc 1994‡‡	104¼	+1/16	13.92	13.17
107½	99¾	Exch 13½pc 1994	100¾	+1/16	13.38	13.22
96½	89½	Treas. 10pc Ln. 1994‡‡	90½xd	+1/16	11.02	13.06
104½	96½	Exch. 12½pc 1994	97½	+1/16	12.77	13.19
92½	85	Treas 9pc 1994‡‡	86½xd	+1/16	10.40	13.05

Five to Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
103½	94½	Treas 12pc 1995	96½	+1/16	12.46	13.08
76½	73	Exch 3pc Gas 90-95	74½	+1/16	4.06	9.66
96½	88½	Exch. 10¼pc 1995	89½	+1/16	11.41	13.01
108	97½	Treas 12¾pc 1995‡‡	99½xd	+1/16	12.81	12.89
112½	101½	Treas. 14pc '96	103½	+1/16	13.55	13.14
92½	82½	Treas. 9pc 1992-96‡‡	84½	+1/16	10.67	12.90
119½	107½	Treas 15¼pc 1996‡‡	109½	+1/16	13.97	13.00
110½	99½	Exch 13¼pc 1996‡‡	101xd	+1/16	13.12	13.00

Remaining rows of "Five to Fifteen Years", "Over Fifteen Years" and "Undated": [illegible]

BRITISH FUNDS—Contd

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
25½	20¼	Treas. 2½pc	21½	-1/16	11.46	-

Index-Linked (b) (1) (2): [illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for August 1989: 115.5 and for March 1990: 121.4.

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

1990 High	1990 Low	Stock	Price £	+ or -	Div Gross	C'vr	Y'ld Gr's
21½	14½	Chase Manhattan $12½	14½xd	-¼	$2.36	-	9.7
19¼	14	Chem. Banking Corpn.	15¼	+½	$2.72	-	10.7
12¼	9¼	Chrysler $6¼	9½xd		$1.20	-	7.4
18¼	12.3	Citicorp $1	13½xd	+⅛	$1.78	-	7.9

Remaining rows: [illegible]

CANADIANS

[illegible]

Continued on next page

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
303	219	ANZ $A1	229	+3	44c	1.4	8.7	8.2
196	172	Abbey National 10p	191	–1	5.7	4.3	4.0	7.7
282	227	Allied Irish Ord	227	–2	Q40%	3.3	4.3	11.7
£13¼	£11⅞	Algemene Fl.10	£12⅞	–⅛	Q28%	2.1	7.3	6.4
85	73	Anglo Irish	77	.....	Q18.7%	2.7	5.7	10.5
81	68	Ansbacher (H.) 1p	68	.....	2.5	1.3	4.9	19.6
£70¾	£54¾	Bancaire Cie Fr100	£69½	+½	Q12½%	–	2.0	–
£22¾	£16¾	Banco Bilbao Viz	£18	.....	Q17.9%	2.0	4.0	12.6
£31	£24¾	Banco de Santander	£28	.....	Q25%	2.4	4.0	10.4
286	226	Bank Ireland Ir£1	226	–4	Q12%	3.2	5.2	7.7
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	345	.....	13.5	–	5.2	–
125	104	Bank Scotland	109	+2	4.55	3.6	5.6	6.6
100¼	83½	Do. 9¼pc Irrd Pf	86½	+½	9¼%	–	14.3	–
54	42	Bank of Wales	42	.....	2.8	♦	8.9	♦
599	493	Barclays £1	540	+7	27.4	3.5	6.8	5.3
22	14	Benchmark 20p	14	–1	1.63	1.0	15.5	8.0
335	310	Brown Shipley £1	316	–3	10.5	–	4.4	–
455	361	Cater Allen £1	362	–2	23.5	–	8.7	–
179	137	Chancery	139	+2	8.0	2.8	7.7	6.1
£23¼	£19⅞	Commerzbk DM10	£21¼	+¼	Q18%	–	3.1	–
£13¼	842	Dai Ichi KBk Y50	980	+18	Q16%	8.8	0.3	34.4
£313	£262¼	Deutsche Bk DM50	£291½	.....	Q28%	–	1.7	–
£20⅞	£19	Espirito Santo	£19⅞	–⅛	Q75c	3.3	2.3	13.5
253	183	First Nat. Fin. 10p	198	.....	13.0	2.4	8.8	6.1
121	96	FNFC 6.3pc Cv. Pf	100	.....	6.3%	–	8.4	–
£15¼	953	Fuji Bank Y50	£10½	+⅛	Q15.6%	4.2	0.3	–
325	262	Gerrard & National	268	.....	18.5	–	9.2	–
154	141	Guinness Mahon 10p	141	–3	2.1	–	2.0	–
328	223	Hambros 20p	245	.....	10.0	–	5.4	–
128	93	Do. 7.5pc Cv Pf	96	+1	7½%	–	10.4	–
53½	44½	HK & Shang. HK$2.50	44½	–½	Q39c	–	6.5	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

For EMC see TRANSPORT

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MOTORS, AIRCRAFT TRADES – Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND – Contd

TRUSTS, FINANCE, LAND – Contd

Finance, Land, etc

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES – Contd

Miscellaneous

THIRD MARKET

1990 High	Low	Stock	Price	+ or –	Div Net	Cvr	Y'ld Gr's	P/E
45	30	Navan Resources ... γ	34	......	–	–	–	–
57	36	Ovoca Gold IR 2p ... γ	38	+2	–	–	–	–
72	38	Oxford Virology 5p ... γ	38	......	–	–	–	–
25	17	Pennant Grp. 2p ... α	21	+1	40.2	–	1.3	–
76	61	Poddington 5p ... γ	75	+2	–	–	–	–
118	86	Ramsden's (Harry). γ	87	–1	L4.5	♦	6.9	♦
60	43	Rentaminster 5p ... γ	43	......	ta1.85	2.8	‡	8.5
14	11	Scott Pickford 10p ... γ	14	......	d0.38	3.8	3.6	9.4
38	19	Semperanova ... γ	19	......	–	–	–	4.2
36	24	Sleepy Kids 5p ... γ	32	......	–	–	–	–
2¼	1½	Swanyard Studios 1p γ	1½	......	–	–	–	8.4
94	64	Tomorrows Leisure 20p γ	64	......	–	–	–	24.3
55	35	UPL Group 10p ... γ	42	......	‡2.75	1.9	‡	7.9
177	128	Unit Group ... γ	177	......	5.0	3.3	3.8	10.1
89	69	Video Magic Leis. 1p γ	69	......	W2.0	0.7	3.9	55.3
5¼	3¼	Vista Ents 5p ... γ	3¼	......	–	–	–	–
18	13	Vizcaya Hldgs 5p ... γ	13	......	–	–	–	–
43½	27½	Whitegate Leisure 20p γ	27½	–1	0.25	1.7	1.2	58.8
29	11	Do. Wrrnts ... γ	11	......	–	–	–	–
5½	3¼	Wilton Group 1p ... γ	4	......	–	–	–	–

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ■ No par value

B.Fr. Belgian Francs. Fr. French Francs ## Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p ... γ	76	......
Craig & Rose £1 ... γ	818	......
Finlay Pkg. 5p ... γ	56	+1
Holt (Jos) 25p ... γ	1310	......

Arnotts ...	400	–35
Carrol (P.J.) ... γ	150	–5
Hall (R. & H.) ...	185	+7
Helton Hldgs ... γ	70	–5
IRG ...	200	......
United Drug ...	165	......

IRISH

Cap. 8¼% Ln. 1991 ...	£98	+1
9pc Cap Ln. 1996 ...	£94¼	+¼
Fin. 13% 97/02 ...	£112	+½

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	39
Amstrad	5½
Astec (BSR)	5¼
BAT	83
BOC Grp.	45
BTR	36
Barclays	49
Blue Circle	19
Boots	23
Bowaters	38
Brit Aerospace	42
British Steel	9
Brit. Telecom	25
Cadburys	27
Charter Cons.	40
Comm Union	40
Courtaulds	24
Eurotunnel	60
FKI	7
FNFC	21
Gen Accident	93
GEC	18
Glaxo	56
Grand Met	45
Guardian	19
GKN	33
Hanson	18
Hawker Sidd	55
ICI	85
Ladbroke	25
Legal & Gen	34
Lex Service	26
Lloyds Bank	22
Lucas Inds	52
Marks & Spencer	17
Midland Bk	27
Nat West Bk	29
P & O Dfd	50
Polly Peck	37
Racal Elect	19
RHM	35
Rank Org Ord	68
Reed Intnl	33
STC	20
Sears	9½
SmKl. Beecham A	46
TI	38
TSB	11
Tesco	17
Thorn EMI	61
Trust Houses	22
T&N	17
Unilever	56
Vickers	18
Wellcome	60

Property	
Brit Land	32
Control Secs	5
Land Securities	44
MEPC	44
Mountleigh	14

Oils	
Aviva Petm	5½
Brit Petroleum	28
Burmah Oil	52
Conroy Petm	12
Gaelic Res	4½
Premier	10
Shell	37
Tuskar Res	10
Ultramar	31

Mines	
Lonrho	20
RTZ	45

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AUTHORISED UNIT TRUSTS

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Abbey Unit Tst Mngrs (1000)H						
80 Holdenhurst Rd, Bournemouth 0345 717373						
High Income						
American Income	6	48.92	48.92	52.33	-0.71	5.24
Gilts & Fixed Int	6	101.4	101.4	107.5	+0.6	10.23
High Inc Equity	6	125.2	128.4xd	136.7	+0.8	4.65
Worldwide Bond	6	193.2	193.2xd	204.7	-0.5	6.30
Capital Growth						
American Growth	6	182.3	182.3	195.0	.....	1.06
Asian Pacific	6	133.6	136.4	145.2	+1.8	0.00
Assets & Earnings	6	144.6	144.6	154.7	+1.1	3.14
Capital Reserve Acc	0	90.11	90.11	90.24	+0.21	6.65
Capital Reserve Inc	0	75.74	75.74	75.85	+0.18	7.91
Comdty & Energy	6	96.82	96.82	103.6	-0.4	0.81
Dividend & Growth	6	44.60	45.63	48.55	+0.79	4.31
1992 Enterprise	6	59.58	59.58	63.73	+0.26	2.51
Euro Capital Acc	6	106.0	106.0	113.4	+2.1	0.84
Euro Capital Inc	6	101.8	101.8xd	108.9	+2.1	0.87
General	6	162.9	162.9	174.3	+1.1	2.87
International	6	58.93	59.64	63.50	+0.59	0.79
Japan	6	95.73	95.73	102.4	+1.7	0.00
Mastertrust	6	87.25	87.25	93.32	+0.76	1.51
UK Growth Acc	6	164.0	164.0	175.5	+0.5	1.62
UK Growth Dist	6	107.1	107.1xd	114.6	+0.2	2.49
US Emerging Cos	6	55.03	55.03	58.86	-0.04	0.00
Income & Growth	6	278.8	278.8xd	298.2	+2.8	3.44
Ethical	6	44.50	44.50	47.60	+0.15	2.10

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Brown Shipley & Co Ltd—Contd.						
North American	6	62.01	62.01	66.04	-0.59	0.38
Orient ‡	6	115.0	116.1xd	123.9	+1.80	—
Recovery	6	42.24	42.24	44.99	+0.16	3.80
Smaller Cos Acc	6	232.2	232.2xd	248.5	-0.60	—
Smaller Cos Inc	6	142.2	142.2xd	152.2	-0.40	1.28
Brycourt Unit Tst Mgmt Ltd (1400)F						
Hesketh Hse, Portman Sq, W1H 0JR 071-935 6382						
Income Growth	1	177.4	177.4xd	184.0	+4.1	5.28
Buckmaster Mangmt Co Ltd (1200)H						
15 St Botolph Street, London EC3A 7JJ 071-247 4542						
Emerging Gwth	5¼	55.31	55.31	58.63	+0.27	3.31
(Accum Units)	5¼	57.27	57.27	60.71	+0.28	3.31
Fellowship Tst	5¼	60.39	61.06	64.96	+0.09	3.28
(Accum Units)	5¼	63.14	63.84	67.92	+0.1	3.28
General Inc	5¼	273.6	273.6	290.0	+2.3	3.80
(Accum Units)	5¼	468.8	468.8	496.9	+4.0	3.80
Income	5¼	143.5	146.3	155.2	+1.4	4.77
(Accum Units)	5¼	291.4	296.8	314.9	+2.7	4.77
International	5¼	109.5	109.5	116.1	-0.4	1.00
(Accum Units)	5¼	151.3	151.3	160.4	-0.6	1.00
Smaller Co's	5¼	93.52	93.52	99.13	+0.28	2.12
(Accum Units)	5¼	103.7	103.7	109.9	+0.3	2.12
Inv Portfolio	3	51.26	51.26	53.05	-0.31	3.42
(Accum Units)	3	53.74	53.74	55.62	-0.32	3.42
High Income Port	3	42.83	43.63	45.21	.....	4.95
Burrage Unit Tst Mangmt Ltd (0905)F						
117 Fenchurch St, London EC3M 5AL 071-480 7216						
Short Dated Gilt	1¼	55.54	55.54	56.36	+0.2	12.93
CCF Foster Braithwaite UT Mngt (1100)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
CCF Sel High Inc Eqty	5½	45.28	46.17	49.12	+0.39	5.5
CCF Sel Intl Gwth	5½	49.15	49.15	52.83	+1.17	1.42
CCF Sel Inv Tst	5½	44.80	46.08	49.03	+0.25	2.0
CCF Sel UK Sm Co's	5½	43.34	44.76	47.62	+0.11	1.00

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Merlin Jupiter Unit Tst Mgrs Ltd (0905)F						
197 Knightsbridge, London SW7 1RB 071-581 3020						
American Cap	5	103.4	106.0	112.7	+0.2	0.90
Income	5	87.13	87.85	93.45	+0.31	4.53
Resources & General	5	111.4	112.6	119.7	+0.1	2.69
Special Sits	5	31.84	32.87	34.96	-0.06	3.84
International	5	52.73	53.84	57.27	+1.41	3.01
Ecology	5	57.04	58.32xd	62.04	-0.1	1.94

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Pearl Unit Trusts Ltd (1000)H						
PO Box 500, Thorpe Wood, Peterborough PE3 6GD						
Dealing: 0800 626577 Enquiries: 0733 67767						
Growth	5	107.2	109.5xd	115.3	+1.0	3.68
(Accum Units)	5	176.0	180.0	189.4	+1.5	3.68
Income	6	165.4	165.4xd	175.8	-2.0	4.85
Equity	6	168.7	171.7	182.6	+1.6	3.41
(Accum Units)	6	318.1	323.8	344.4	+2.9	3.41
Intl Equity	6	173.3	175.4	186.6	+1.2	2.05
(Accum Units)	6	182.2	184.4	196.1	+1.2	2.05
UK Income	6	45.62	46.39	49.34	+0.39	6.88
UK Intl 25	6	46.28	46.83	49.81	+0.36	3.03

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 7HF 071-493 7262						
Dealing 071-493 8545						
American Opps	5	53.02	53.78	57.36	-0.24	0.19
(Accum Units)	5	54.56	55.34	59.02	-0.25	0.19
European Opps	5	78.20	78.35	83.56	+1.35	0.00
(Accum Units)	5	78.63	78.78	84.02	+1.36	0.00
Far Eastern Opps	5	129.53	129.80	138.44	+0.38	0.00
(Accum Units)	5	130.36	130.63	139.32	+0.39	0.00
Golden Opps	5	35.63	35.65	38.00	-0.05	0.00
(Accum Units)	5	36.65	36.65	39.08	-0.06	0.00
Intl Hi-Yield	5	58.77	58.82	62.73	-0.22	4.39
(Accum Units)	5	64.06	64.12	68.38	-0.24	4.39
Sanyo Japan Tst	5	62.55	62.55xd	66.71	+0.13	0.00
(Accum Units)	5	62.55	62.55xd	66.71	+0.13	0.00
Kangaroo	5	29.37	29.37	31.31	+0.82	1.33
(Accum Units)	5	29.53	29.53	31.49	+0.83	1.33
Oriental Income	5	32.67	32.67	34.83	-0.25	5.02
(Accum Units)	5	37.27	37.27	39.75	-0.25	5.02
Tiger	5	149.51	149.51xd	156.20	+0.04	0.71
(Accum Units)	5	148.08	148.08xd	157.94	+0.03	0.71
UK Hi-Yield	5	40.93	40.93	43.65	+0.27	5.24
(Accum Units)	5	46.80	46.80	49.91	+0.31	5.24
UK Opps	5	51.52	53.67	57.39	+0.86	0.74
(Accum Units)	5	55.92	58.48	62.53	+0.86	0.74
Three Counties Asset Magmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	89.43	91.24	97.06	+0.94	4.00
Timberlake Trust Mngrs Ltd (0900)F						
1 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	96.45	96.45	99.11	-0.14	1.19
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
TR American Grwth	5¼	47.48	47.48	50.64	+0.72	0
TR Eur Sp Sits Acc	5¼	46.14	46.14	49.04	+0.39	0
TR Eur Sp Sits Inc	5¼	45.24	45.24xd	48.00	+0.39	0
TR Far East Opps Inc	5¼	23.34	23.42	24.92	+0.37	–
TR Far East Opps Acc	5¼	23.34	23.42	24.92	+0.37	–
TR General Growth	5¼	71.41	71.41	75.96	+0.61	2.70
TR Global Tech	5¼	73.21	73.21xd	78.09	+1.57	0
TR Income Growth	5¼	82.24	82.24	87.48	+0.93	4.58
TR Income Monthly	5¼	49.71	49.71	52.88	+0.40	7.69
TR Japan Growth	5¼	80.80	80.80	85.79	+1.95	0
TR German Growth	5¼	66.26	66.26xd	70.59	+0.45	0
TR Smaller Cos	5¼	71.30	71.30xd	75.85	+0.25	2.52
TR Special Opps	5¼	81.86	81.86	87.08	+0.21	3.45
TR Nat Eq Plan Acc	5¼	33.59	33.59	35.73	+0.34	2.76

	Bid Price	Offer Price	+ or -	Yield Gross
NM Rothschild Asset Management Ltd				
NC Managed	55.8	59.4xd	+0.4	3.92
NC Property	191.9	209.7xd	—	–
J. Rothschild Fund Managers Ltd				
Intl Exempt	142.9	144.4	—	3.58
Stewart Ivory & Co Ltd				
Saints PPP Apr 2	248.4	261.5	—	0.00
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt May 1	97.17	103.88xd	—	3.98
(Accum Units)	97.93	104.69xd	—	3.98
Touche Remnant Unit Tst Mngt Ltd				
TR Exempt European	1224	1238xd	—	1.46
TR Exempt Nth Amer	941	956xd	—	3.40
TR Exempt Pac Basin	862	875xd	—	0

INSURANCES

	Bid Price	Offer Price	+ or -	Yield Gross
AA Friendly Society				
(Investment Mngt M & G for Mngt Ltd)				
AA Friendly Sy Apr 12	–	188.1	—	–
Abbey Life Assurance Co Ltd				
80 Holdenhurst Road, Bournemouth 0202 292373				
Prop. Ser. 1	299.7	315.5	—	–
Equity Ser. 1	124.4	131.0	+0.7	–
Prop. Acc. Ser 2	461.9	486.3	—	–
Equity Ser 2	144.2	151.8	+0.8	–
Selection Acc	336.5	354.3	+1.7	–
Prop. Ser. 4	362.5	381.6	—	–
Equity Ser. 4	148.5	156.4	+0.6	–
Man. Ser. 4	429.9	452.6	+2.2	–
Fixed Int. Ser. 4	208.6	219.7	+2.5	–
Indexed Ins. Ser. 4	142.7	150.3	+0.9	–
American Ser. 4	314.0	330.6	+0.2	–
Japan Ser 4	287.2	302.4	+4.4	–
European Ser 4	130.6	137.5	+2.1	–

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National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or −	Yield Gross
Life Funds				
Managed Cautionary	99.4	104.7	+1.2	−
Managed Growth	135.8	143.0	+0.5	−
Managed Opportunity	138.2	145.5	+0.7	−
NFMC Target Financial	95.0	100.0	+0.8	−
Pension Funds				
Managed Cautionary	104.5	110.1	+0.6	−
Managed Growth	139.7	147.1	+1.8	−
Managed Opportunity	140.8	148.3	+0.8	−
NFMC Target Mngd Pen	1477.2	1555.0	+14.5	−

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or −	Yield Gross
Managed Fund	211.2	222.4	—	−
Managed Prudent Fund	177.6	187.0	—	−
Pens Managed	277.2	291.8	—	−
Pens UK Equity	319.5	336.4	—	−
Pens Overseas Equity	389.7	410.3	—	−
Pens Property	146.7	154.5	—	−
Pens Fixed Interest	162.6	171.2	—	−
Pens Index Linked	140.1	147.5	—	−
Pens Deposit	194.9	205.2	—	−
Harvester & P.R.P.				
UK Equity	139.7	147.1	—	−
Overseas Equity	139.5	146.9	—	−
Fixed Interest	111.2	117.1	—	−
Property	122.1	128.6	—	−
Index Linked	127.3	134.1	—	−
Deposit	135.3	142.5	—	−
Managed	139.8	147.2	—	−
With Profits	137.9	145.2	—	−

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or −	Yield Gross
Managed	330.7	348.2	+2.9	−
UK Equity	414.1	435.9	+4.4	−
Overseas Eq	351.7	370.3	+1.9	−
American	261.6	275.4	−0.5	−
Far East	367.7	387.1	+3.4	−

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	+ or −	Yield Gross
UK Managed Initial	112.5		+0.6	−
Property Initial	167.5		—	−
Money Initial	80.2		—	−
Special Market Initial	130.6		+1.2	−
Japan Equity Initial	96.4		+1.5	−
North American Initial	81.9		−0.1	−
Pacific Initial	77.0		+0.4	−
Technology Initial	91.3		−1.1	−
Nat Resources Initial	55.0		+0.2	−
European Initial	110.5		+1.2	−
Residential Prop Init	99.4		−0.1	−
Swiss Equities Initial	37.5		+0.4	−
Hong Kong Initial	48.7		−0.8	−
UK High Inc Eq Init	64.6		+0.4	−
Int Fixed Interest Init	48.9		+0.6	−
Int Managed Init	56.1		+0.3	−
HIP Managed Init	111.4		+1.1	−
HIP Managed II Initial	97.7		—	−
Broker Funds				
High Performance	74.3	78.3	+0.3	−
Towerbid Mngd Fd Acc	48.4	51.0	+0.4	−
YRA Executive Fd	93.1	98.2	+0.6	−
£ Global Growth Acc	130.5	137.6	—	−
£ High Income Mony Acc	111.4	117.7	—	−
IM Balanced	54.6		+0.4	−
H F Speculator Fd	149.4		+0.3	−
PEP Acorn II	118.9		+0.5	−
PEP Cautionary	80.0		−1.8	−
AAFS Int Man Fund	116.2		+0.4	−
Andrews-Green Int Pen	97.5		—	−
Individual Pension Funds				
UK Equity Acc	214.8	226.6	+1.2	−
UK Fixed Interest Acc	174.0	183.6	+2.8	−
Intl Equities Acc	245.6	259.1	+1.9	−
UK Managed Acc	177.1	186.8	+1.1	−
Property Acc	211.5	223.2	—	−
Money Acc	139.6	147.3	+0.2	−
Special Market Acc	261.1	275.5	+3.1	−
Japan Equity Acc	195.6	206.4	+3.1	−
North American Acc	127.8	134.9	−0.3	−

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

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SWITZERLAND (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

	Bid Price	Offer Price	+ or -	Yield Gross
Wardley Investment Services Ltd				
Wardley S E Asia Tst	$11.97	12.70	(z)	0.87
Japanese Warrants	$7.56	8.01	(z)	–
Asian Warrants	$8.70	9.22	(z)	–
European Warrants	$9.74	10.32	(z)	–
Wells Fargo U.S. IT Fund				
NAV May 7		$9.57	....	–
Xiphias International Investment Fd Ltd				
Xiphias Int USD		$1.0099	....	–
Xiphias Int ECU		Ecu1.0127	....	–
Yamaichi Dynamic Mngt Co SA				
Advanced Tech		$21.49	....	–

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
CAF Money Management Co Ltd				
48 Pembury Road, Tonbridge TN9 2JD			0732 770114	
Cafcash Deposit Fd	14.79	–	15.63	3-Mth
The COIF Charities Deposit Account				
2 Fore Street, London EC2Y 5AQ			071-588 1815	
Deposit	14.85	–	15.70	3-Mth
Gartmore Money Management Ltd				
2-3 White Hart Yard, London SE1R 1NX			071-236 1425	
Call Fund	14.40	11.23	15.39	6-Mth
7-day Fund	14.54	11.34	15.55	6-Mth
Special Fund	14.92	–	16.37	Mth
Dollar	6.87	5.36	7.29	3-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int C
Aitken Hume Bank plc				
30 City Road, EC1Y 2AY			071-638 6070	
Treasury Acc	13.50	10.53	14.60	Qtr
Mth Int Chq £1,000-£4,999	13.50	10.53	14.73	Mth
Mth Int Chq £5,000-£49,999	14.00	10.92	15.31	Mth
Mth Int Chq £50,000+	14.50	11.31	15.88	Mth
Allied Trust Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			071-629 6802	
OMNA (£2,001+)	14.78	11.53	16.210	Mth
HICA (£2,001+)	13.90	10.84	15.196	Mth
PROMNA (£250,001+)	14.90	11.62	16.349	–
Bank of Ireland High Interest Cheque Acc				
36 Queen St, EC4R 1BN			071-625 7000	
2,000-9,999	13.782	10.750	14.921	Qtr
£10,000+	14.103	11.000	15.283	Qtr
Bank of Scotland				
38 Threadneedle St, EC2P 2EH			071-601 6746	
HI Chq Acc £2,500-£24,999	13.4	10.45	14.62	Mth
£25,000+	13.65	10.64	14.91	Mth
Barclays Capital Advantage Account				
94 St Paul's Churchyard EC4M 8EH			071-248 9155	
£10,000-£24,999	14.00	10.90	15.13	Qtr
£25,000-£49,999	14.25	11.20	15.57	Qtr
£50,000+	14.50	11.40	15.87	Qtr
Barclays Prime Account H.I.C.A.				
PO Box 125, Northampton			0604 252891	
£1,000-£2,499	11.80	9.20	12.70	Qtr
£2,500-£9,999	12.20	9.50	13.13	Qtr
£10,000-£24,999	12.80	10.00	13.84	Qtr
£25,000+	13.10	10.25	14.20	Qtr
Benchmark Bank PLC Premier Account				
86 Newman Street, W1P 3LD			071-631 3313	
Small Deposits	10.50	–	–	–
£2,500-£10,000	13.50	10.53	14.60	Qtr
£10,001-£20,000	13.75	10.73	14.89	Qtr
£20,000+	14.50	11.31	15.73	Qtr
B & C Merchant Bank PLC Portfolio Acc				
19 Motcomb Street, London SW1X 8LB			071-245 6616	
£2,500-£9,999	12.38	9.65	13.36	Qtr
£10,000-£49,999	13.75	10.73	14.94	Qtr
£50,000 and above	14.25	11.12	15.50	Qtr
Brown Shipley & Co Ltd				
Founders Court, Lothbury, London EC2			071-606 9833	
Demand Acc	13.625	10.66	14.79	Qtr
Caledonian Bank Plc				
8 St Andrew Square, Edinburgh EH2 2PP			031 556 8235	
HICA	14.50	11.35	15.13	Yearly
Cater Allen Ltd				
25 Birchin Lane, London EC3V 9DJ			071-623 2070	
HICA	13.50	10.53	14.7378	Mth
Consort £5,000 min	14.25	11.11	15.5988	Mth
Charterhouse Bank Limited				
1 Paternoster Row, EC4M 7DH.			071-248 4000	
£2,500-£19,999	13.25	10.34	14.45	Mth
£20,000-£49,999	13.50	10.53	14.74	Mth
£50,000-£99,999	13.75	10.73	15.02	Mth
£100,000+	14.00	10.92	15.31	Mth
$5,000-$49,999	7.00	5.46	7.47	Mth
$50,000-$99,999	7.25	5.66	7.74	Mth
$100,000-$199,999	7.50	5.85	8.01	Mth
$200,000+	7.75	6.05	8.29	Mth

Many other currencies are available—for rates please phone ext 2168

UNIT TRUST NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar calm ahead of auctions

CURRENCY TRADING was quiet and calm yesterday, with the dollar closing in London little changed from Monday's finish in New York. Weaker than expected US employment data last Friday continued to weigh on the dollar, but this was offset by rising optimism about the outcome of this week's quarterly refunding auctions by the US Treasury. West German current account figures for March had little impact and lack of other fresh economic factors prevented any sharp movements on the foreign exchanges.

The US Treasury offered $10.5bn of three-year notes yesterday, in the first of a three part auction, with attention centred on the level of Japanese demand. Dealers were uncertain about the impact of the auctions on the value of the dollar against the yen however.

At the London close the dollar had climbed to DM1.6580, from DM1.6555 in New York on Monday, but was lower than Friday's London close of DM1.6715. It had also advanced to FFr5.5725 from FFr5.5657 (FFr5.6100 in London on Friday), and to SFr1.4330 from SFr1.4315 (SFr1.4445 on Friday), but fell to Y157.85 from Y158.085 (Y158.35 on Friday). According to the Bank of England the dollar's index fell to 67.7, from 68.0 on Friday.

The March West German current account surplus widened to DM10.1bn from a revised DM8.1bn, but the end of an upward run in Frankfurt share prices, as equity values fell 1.8 per cent yesterday, had a slightly unsettling impact. In quiet trading the D-Mark showed small gains against European currencies in general and also improved in terms of the Japanese yen. Nevertheless the shadow of German monetary union continues to cast a cloud over the D-Mark, which remains towards the bottom of the European Monetary System.

At the London close the D-Mark was quoted at L733.65 against the Italian lira, after being fixed at L733.60 in Milan. The lira remained the second strongest member of the EMS, but showed little reaction to sharp losses by the Communist Party in Italian local elections.

Sterling improved slightly against the dollar, but weakened from last Friday's close against most major currencies. The pound advanced to $1.6695, from $1.6675 in New York on Monday, and from $1.6600 in London on Friday. On the other hand sterling fell to DM2.7675, from DM2.7750 on Friday; to FFr9.3000 from FFr9.3125; to SFr2.3925 from SFr2.3975; but rose to Y263.50 from Y262.75. On Bank of England figures the pound's index was unchanged at 87.6.

The market is waiting for publication of the UK retail price index on Friday, amid suggestions that year-on-year inflation could touch 10 per cent. Mr John Major, the UK Chancellor, said yesterday that Government measures to bring down inflation were working, and that he was fairly confident about containment of the problem.

£ IN NEW YORK

May.8	Latest	Previous Close
£ Spot	1.6590-1.6600	1.6670-1.6680
1 month	0.90-0.89pm	0.98-0.97pm
3 months	2.61-2.58pm	2.71-2.69pm
12 months	9.10-9.00pm	9.25-9.15pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	May.8	Previous
8.30 am	87.6	87.2
9.00 am	87.6	87.2
10.00 am	87.6	87.2
11.00 am	87.6	87.2
Noon	87.7	87.3
1.00 pm	87.7	87.3
2.00 pm	87.6	87.5
3.00 pm	87.6	87.5
4.00 pm	87.6	87.6

CURRENCY RATES

May.8	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling	-	N/A	0.739744
U.S Dollar	7	1.31412	1.23700
Canadian $	13.32	1.52253	1.43863
Austrian Sch.	6½	15.3450	14.4061
Belgian Franc	10½	45.0480	42.2776
Danish Krone	10½	8.28848	7.78130
Deutsche Mark	6	2.18118	2.04749
Neth.Guilder	7.00	2.45346	2.30243
French Franc	10½	7.32885	6.88019
Italian Lira	13½	1600.43	1502.46
Japanese Yen	5¼	207.365	195.598
Norway Krone	8	8.49922	7.96752
Spanish Peseta	-	136.363	128.190
Swedish Krona	11½	7.93357	7.47862
Swiss Franc	6.00	1.88905	1.77262
Greek Drach.	20½	214.458	201.445
Irish Punt	-	0.812995	0.763062

† European Commission Calculations.
* All SDR rates are for May.7

CURRENCY MOVEMENTS

May.8	Bank of England Index	Morgan** Guaranty Changes %
Sterling	87.6	-24.1
U.S Dollar	67.7	-10.4
Canadian Dollar	104.7	+1.8
Austrian Schilling	110.2	+12.1
Belgian Franc	111.6	-2.0
Danish Krone	111.7	+5.9
Deutsche Mark	119.5	+25.1
Swiss Franc	112.6	+20.9
Guilder	115.4	+16.4
French Franc	105.3	-11.6
Lira	102.1	-17.7
Yen	117.1	+44.9

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for May.7

OTHER CURRENCIES

May.8	£	$
Argentina	[illegible]	[illegible]
Australia	2.2045-2.2065	1.3210-1.3220
Brazil	[illegible]	[illegible]
Finland	6.5495-6.5570	3.9260-3.9310
Greece	269.55-274.05	161.40-164.00
Hong Kong	13.0030-13.0160	7.7915-7.7935
Iran	115.60*	70.40*
Korea(Sth)	1169.60-1188.50	704.50-710.10
Kuwait	0.4890-0.4900	0.2935-0.2940
Luxembourg	57.15-57.25	34.20-34.30
Malaysia	4.5040-4.5160	2.7010-2.7030
Mexico	4703.00-4722.00	2818.00-2828.00
N. Zealand	2.9020-2.9065	1.7385-1.7405
Saudi Ar.	6.2510-6.2570	3.7500-3.7510
Singapore	3.1145-3.1220	1.8675-1.8695
S. Af (Cm)	4.4045-4.4160	2.6410-2.6425
S. Af (Fn)	6.7290-6.8700	4.0320-4.1150
Taiwan	44.05-44.15	26.40-26.45
U.A.E.	6.1200-6.1275	3.6715-3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

May 8	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14⅞	15⅛-14⅞	15⅛-14⅞	15⅛-15⅛	15⅜-15⅜	15⅞-15⅝
US Dollar	8¼-8	8⅜-8⅛	8⅜-8¼	8⅜-8⅛	8½-8⅜	9⅛-8⅞
Can. Dollar	13¼-13	13¼-13	13⅛-12⅞	13⅜-13⅛	13⅜-13⅛	13½-13¼
D. Guilder	8¼-7¾	8¼-7¾	8⅛-8⅛	8⅛-8⅛	8¼-8⅛	9-8⅞
Sw. Franc	9-8⅞	9-8⅞	9⅛-9⅛	9⅛-9⅛	9⅛-9⅛	9¼-9
Deutschmark	7⅞-7¾	7⅞-7⅞	8-7⅞	8⅛-8⅛	8⅛-8⅞	8⅞-8⅞
Fr. Franc	9⅝-9½	9⅝-9½	9⅝-9½	9⅞-9⅞	9⅞-9⅞	10-9⅞
Italian Lira	13-11	12¼-11⅞	12-11½	12-11½	12-11⅞	12⅛-12⅛
Belgian Franc	10¼-10⅛	10¼-10⅛	10-9⅞	10-9⅞	10-9⅞	10-9⅞
Yen	7⅛-7	7⅛-7⅛	7⅛-7⅛	7⅛-7⅛	7⅛-7⅛	7⅛-7⅛
D. Krone	10⅛-10⅛	11-10⅞	10⅞-10⅞	10⅞-10⅞	10⅞-10⅞	10⅞-10⅞
Asian $Sing	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	8⅛-8⅛	9⅛-8⅞

Long term Eurodollars: two years 9⅛-9⅛ per cent; three years 9½-9⅜ per cent; four years 9⅝-9⅝ per cent; five years 9⅝-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

POUND SPOT- FORWARD AGAINST THE POUND

May.8	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6665-1.6745	1.6690-1.6700	0.97-0.95cpm	6.90	2.73-2.70pm	6.50
Canada	1.9385-1.9475	1.9420-1.9430	0.32-0.24cpm	1.73	0.86-0.74pm	1.65
Netherlands	3.10½-3.11½	3.10¾-3.11¾	1¾-1¾cpm	6.99	5-4¾pm	6.35
Belgium	56.90-57.25	57.15-57.25	32-20cpm	5.45	82-64pm	5.10
Denmark	10.48¾-10.53½	10.50¾-10.51¾	4¾-3¾orepm	4.42	12-10½pm	4.28
Ireland	1.0285-1.0365	1.0310-1.0320	0.41-0.36cpm	4.48	1.00-0.90pm	3.68
W. Germany	2.76-2.77	2.76½-2.77	1¾-1⅝pfpm	7.32	4¾-4⅝pm	6.78
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar [illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

May.8	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6665-1.6745	1.6690-1.6700	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu May.8	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.2776	+0.26	-0.39	±1.5508
Danish Krone	7.79845	7.78130	-0.22	-0.87	±1.6403
German D-Mark	2.04446	2.04749	+0.15	-0.50	±1.1093
French Franc	6.85684	6.88019	+0.34	-0.31	±1.3659
Dutch Guilder	2.30358	2.30243	-0.05	-0.70	±1.5272
Irish Punt	0.763159	0.763062	-0.01	-0.66	±1.6689
Italian Lira	1529.70	1502.46	-1.78	-1.65	±4.1302
Spanish Peseta	132.889	128.190	-3.54	-3.54	±4.2765

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

May.8	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.670	2.768	263.5	9.300	2.393	3.113	2030	1.943	57.20
$	0.599	1	1.657	157.8	5.569	1.433	1.864	1216	1.163	34.25
DM	0.361	0.603	1	95.20	3.360	0.865	1.125	733.4	0.702	20.66
YEN	3.795	6.338	10.50	1000.	35.29	9.082	11.81	7704	7.374	217.1
F Fr.	1.075	1.796	2.976	283.3	10.	2.573	3.347	2183	2.089	61.51
S Fr.	0.418	0.698	1.157	110.1	3.886	1	1.301	848.3	0.812	23.90
H Fl.	0.321	0.536	0.889	84.65	2.987	0.769	1	652.1	0.624	18.37
Lira	0.493	0.823	1.364	129.8	4.581	1.179	1.533	1000.	0.957	28.18
C $	0.515	0.859	1.425	135.6	4.786	1.232	1.602	1045	1	29.44
B Fr.	1.748	2.920	4.839	460.7	16.26	4.184	5.442	3549	3.397	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS $100,000 64ths of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE BUND FUTURES OPTIONS DM250,000 points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE EURODOLLAR OPTIONS $1m points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE SHORT STERLING OPTIONS £500,000 points of 100%

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT £50,000 32nds of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

US TREASURY BONDS 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

6% NOTIONAL GERMAN GOVT. BOND DM250,000 100ths of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

	Close	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH STERLING £500,000 points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EURODOLLAR $1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH EUROMARK DM1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE MONTH ECU Ecu1m points of 100%

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT-SE 100 INDEX £25 per full index point

	Close	High	Low	Prev.
Jun	2211.0	2217.0	2201.0	2199.0
Sep	2233.0	[illegible]	[illegible]	2221.0
Dec	2292.0	2291.0	2291.0	2267.0

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.6695	1.6599	1.6424	1.6176	1.5762

IMM-STERLING $s per £

	Latest	High	Low	Prev.
Jun	1.6586	1.6600	1.6572	1.6564
Sep	1.6330	1.6350	1.6324	1.6310
Dec	-	1.6110	-	1.6080

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per £1)

Strike Price	Calls				Puts			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES (May 7)

	Open	Close	Change	High	Low	Yield	Open int.
June	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
September	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
December	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OPTION ON LONG-TERM FRENCH BOND (MATIF) (May 7)

Strike	Calls			Puts		
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH PIBOR FUTURES (MATIF) (Paris interbank offered rate) (May 7)

	Open	Close	Change	High	Low	Yield	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CAC-40 FUTURES (MATIF) Stock Index (May 7)

	Open	Close	Change	High	Low	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Latest	High	Low	Prev.
Jun	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STANDARD & POORS 500 INDEX $500 times index

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BASE LENDING RATES

ABN Bank 15 · Adam & Company 15 · Allied Trust Bank 15 · Allied Irish Bank 15 · ● Henry Ansbacher 15 · Associates Cap Corp 15½ · B & C Merchant Bank 15 · Banco Bilbao Vizcaya 15 · Bank Credit & Comm. 15 · Bank of Cyprus 15 · Bank of Ireland 15 · Bank of India 15 · Bank of Scotland 15 · Banque Belge Ltd 15 · Barclays Bank 15 · Benchmark Bank PLC 15 · Brit Bk of Mid East 15 · ● Brown Shipley 15 · CL Bank Nederland 15 · ● Charterhouse Bank 15 · Citibank NA 15 · City Merchants Bank 15 · Clydesdale Bank 15 · Comm. Bk N. East 15 · Co-operative Bank 15 · Coutts & Co 15 · Cyprus Popular Bk 15 · Duncan Lawrie 15 · Equatorial Bank plc 15 · Exeter Trust Ltd 15½ · Financial & Gen. Bank 15 · First National Bank Plc 16 · ● Robert Fleming & Co. 15 · Robert Fraser & Ptnrs 15½ · Girobank 15 · ● Guinness Mahon 15 · HFC Bank plc 15½ · ● Hambros Bank 15 · Hampshire Trust Plc 15 · Heritable & Gen Inv Bank 15 · ● Hill Samuel 15 · C. Hoare & Co. 15 · Hongkong & Shangh. 15 · ● Leopold Joseph & Sons 15 · Lloyds Bank 15 · Meghraj Bank Ltd 15 · Midland Bank 15 · Mount Banking 15 · NatWestminster 15 · Northern Bank Ltd 15 · Nykredit Mortgage Bank 15½ · Provincial Bank PLC 15 · Roxburghe Guarantee 15¼ · Royal Bk of Scotland 15 · Royal Trust Bank 15 · ● Smith & Williamson Secs. 15 · Standard Chartered 15 · TSB 15 · UBBank Plc 15 · ● United Bk of Kuwait 15 · United Mizrahi Bank 15 · Unity Trust Bank Plc 15 · Western Trust 15 · Westpac Bank Corp 15 · Whiteaway Laidlaw 15 · Yorkshire Bank 15

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.9% Sawrate 8.5%. Top Tier-£50,000+ instant access 13.7% & Mortgage base rate. § Demand deposit 9%. Mortgage 15.2% - 15.05%

MONEY MARKETS

Slightly firmer tone

THE MOOD of euphoria on London's financial markets tended to fade yesterday. Short sterling futures rose sharply on Friday, following better than feared results for the Conservative Party in last week's local elections, but prices retreated yesterday and cash rates on the money market had a slightly firmer tone.

September short sterling opened lower at 85.04, and closed at 84.99 compared with 85.09 on Friday. Three-month interbank was quoted at 15¼-15⅛ per cent on the cash market against 15¼-15⅛, and 12-month money was 15⅝-15½ per cent compared with 15⅝-15½ on Friday.

UK clearing bank base lending rate 15 per cent from October 5

Day-to-day credit remained in very short supply in London. The Bank of England initially forecast a shortage of £1,000m, but revised this to £1,100m at noon, and to £1,150m in the afternoon. Total help of £980m was provided.

An early round of assistance was offered and at that time the authorities bought £208m bills including £178m bank bills outright, in band 2 at 14¾ per cent. Another £30m bills were purchased for resale to the market in equal amounts on May 21 and 22, at a rate of 14⅞ per cent.

Before lunch a further £131m bills were bought outright, by way of £15m bank bills in band 1 at 14⅞ per cent and £116m bank bills in band 2 at 14¾ per cent. In the afternoon the Bank of England purchased £386m bills outright, via £7m Treasury bills in band 1 at 14⅞ per cent; £57m bank bills in band 1 at 14⅞ per cent; and £322m bank bills in band 2 at 14¾ per cent. Late assistance of around £255m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,417m, with the unwinding of repurchase agreements on bills absorbing £766m, and bank balances below target £110m. These outweighed Exchequer transactions adding £810m to liquidity, and a fall in the note circulation of £475m.

In Frankfurt credit conditions were tight, with call money remaining at 7.90 per cent. Banks reserve holdings at the Bundesbank have been low at the start of this month, and the central bank acted to relieve a short term liquidity problem by offering 14-day funds at this week's securities repurchase agreement tender. The two tranche tender is also for 34-day money, and will be required to replace a facility of DM21.9bn expiring today.

FT LONDON INTERBANK FIXING

(11.00 a.m. May.8) 3 months US dollars		6 months US Dollars	
bid 8⅜	offer 8½	bid 8⅝	offer 8¾

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate	10
Broker loan rate	9¼
Fed. funds	8¼
Fed. funds at intervention	-

Treasury Bills and Bonds

One month	7.78	Three year	8.77
Two month	7.79	Four year	8.79
Three month	8.05	Five year	8.78
Six month	8.23	Seven year	8.84
One year	8.41	10-year	8.84
Two year	8.70	30-year	8.82

May.8	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.85-7.95	8.05-8.20	8.10-8.25	8.20-8.35	8.50-8.65	8.00
Paris	-	-	-	-	-	9.50
Zurich	8¾-8½	9-9¼	-	9-9¼	-	-
Amsterdam	8.50-8.56	8.37-8.47	-	8.52-8.56	-	-
Tokyo	6⅞-7	7¼-7⅜	-	7⅜-7⅞	-	-
Milan	11¾-12¼	11½-11¾	-	11¾-12⅛	-	-
Brussels	10.60	9¾-10	-	9¾-10	-	-
Dublin	11½-11¾	11½-11¾	11⅝-11⅞	11¾-11¾	11¾-11¾	-

LONDON MONEY RATES

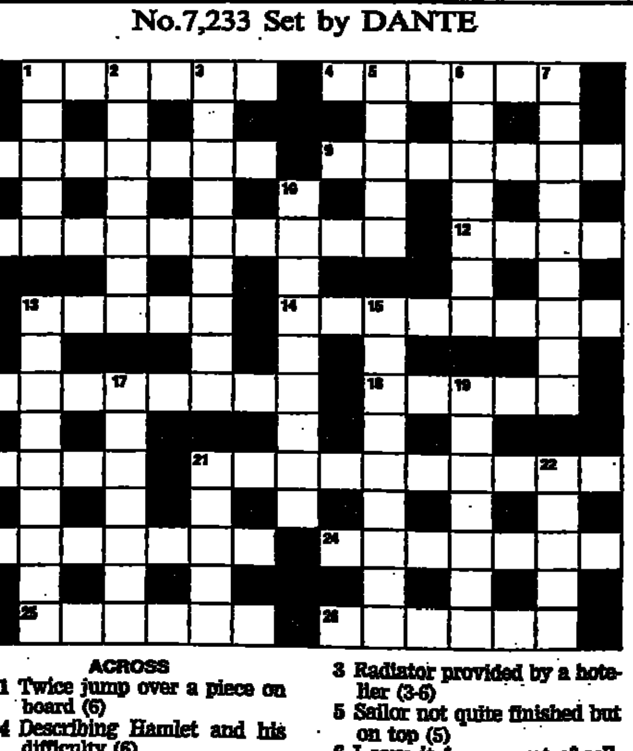
May 8	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	15¼	15	15⅛	15⅜	15½	15⅝
Interbank Bid	15	14⅞	15	15⅛	15⅜	15⅞
Sterling CDs	-	-	15⅛	15⅛	15⅜	15⅝
Local Authority Deps.	15	14⅞	15	15⅛	15⅜	15⅜
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15⅛	14⅞	14⅞	14⅝	-	-
Company Deposits	-	-	15⅛	15¼	15½	15⅝
Finance House Deposits	-	-	15⅛	15⅛	15½	15⅝
Treasury Bills (Buy)	-	-	14⅞	14⅞	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	14⅞	-
Fine Trade Bills (Buy)	-	-	15⅛	15⅛	15⅜	-
Dollar CDs	-	-	8.35	8.45	8.62	8.95
SDR Linked Dep. Offer	-	-	8⅞	9⅛	9¼	9⅜
SDR Linked Dep. Bid	-	-	8¾	8⅞	9⅛	9¼
ECU Linked Dep. Offer	-	-	10⅛	10⅛	10⅜	10⅜
ECU Linked Dep. Bid	-	-	10	10¼	10½	10¼

Treasury Bills (sell); one-month 14⅞ per cent; three months 14⅞ per cent; Bank Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.5813 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1990. Agreed rates for period May 26 to June 25, 1990, Scheme I: 15.94 p.c., Schemes II & III: 16.49 p.c. Reference rate for period March 31, 1990 to April 30, 1990, Scheme IV&V. 15.247 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15½ from May 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9, 1989, Deposits withdrawn for cash 5 per cent.

JOTTER PAD

CROSSWORD

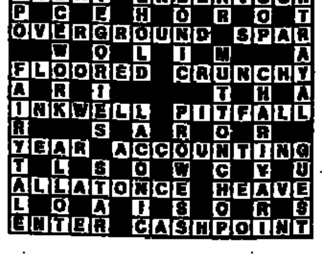
No.7,233 Set by DANTE



ACROSS
1 Twice jump over a piece on board (6)
4 Describing Hamlet and his difficulty (8)
8 Break a fruit dish (7)
9 Set a bed by a lake (7)
11 Check one's speed (10)
12 Imposed duty (4)
13 A charge on collection (5)
14 Hardback produced by a printer (8)
16 One who makes predictions about a distant traveller (8)
18 Look back into the Middle Ages for capital savers (5)
20 It sparkles when it is reflected (4)
21 Those who never do a day's work (5-5)
23 Opposed to profit in a way (7)
24 Concentrated on the film? (7)
25 Got leg broken? Wooden pin provided (6)
26 Thankless task to do artistic work – of this kind? (6)

DOWN
1 Push your way in and snatch up the key (5)
2 Smirks that could be made to impress (7)
3 Radiator provided by a hotelier (3-5)
5 Sailor not quite finished but on top (5)
6 I earn it from a sort of selling (7)
7 Security device for locks (9)
10 It may be present in March or April (6-3)
13 Slip on anything you can see (9)
15 Blow that's quite justified to a pirate captain (5,4)
17 Using a tool around a defect (7)
19 Escape of gas (7)
21 Alan's wrong to be nosy (5)
22 Cheeky novel? (5)

Solution to Puzzle No.7,232



WORLD STOCK MARKETS

CANADA

TORONTO
4pm prices May 8

MONTREAL
4pm prices May 8

Total Sales 5,212,789 shares.

INDICES

NEW YORK

DOW JONES	May 8	May 7	May 4	May 3	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2733.56	2721.62	2710.36	2696.17	2810.15 (2/1)	2543.24 (30/1)	2810.15 (2/1/90)	41.22 (2/7/32)
Home Bonds	89.16	88.99	88.83	88.61	93.04 (3/1)	88.48 (2/5)	—	—
Transport	1165.01	1154.52	1145.09	1140.47	1201.10 (2/1)	1031.83 (30/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	212.09	210.51	208.38	206.11	236.23 (2/1)	203.09 (30/4)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2739.41 (2739.19) Low 2710.36 (2698.87)

STANDARD AND POOR'S

	May 8	May 7	May 4	May 3	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	342.01	340.53	338.39	335.57	359.69 (2/1)	322.98 (30/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	398.02	396.55	394.20	391.12	411.20 (2/1)	371.92 (30/1)	411.20 (2/1/90)	3.62 (21/6/32)
Financial	27.88	27.71	27.49	27.15	31.87 (3/1)	26.59 (27/4)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	187.11	186.45	185.38	183.97	198.00 (2/1)	178.43 (30/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	347.58	347.33	345.73	344.97	382.45 (5/1)	342.64 (24/4)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	431.84	431.21	428.61	425.44	460.90 (3/1)	410.72 (30/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Apr 27	Apr 20	Apr 13	year ago (approx.)
Dow Industrial Div. Yield	4.15	4.07	-	3.45
	May 2	Apr 25	Apr 18	year ago (approx.)
S & P Industrial div. yield	3.13	3.13	3.05	3.21
S & P Indl. P/E ratio	14.85	14.72	15.08	12.92

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Calfed Inc	2,534,700	17⅞	+ ⅛
Am. General	2,337,800	50⅜	+ 1⅜
Sara Lee	2,007,700	27⅞	- ½
Global Marine	1,817,700	4⅛	—
Texas Ut.	1,705,000	35⅜	- ⅛
Fannie Mae	1,669,600	35⅞	+ ⅞
Bristol Myers	1,560,500	58	+ 1
Philip Morris	1,473,200	43⅞	+ ⅝
Phillips Pet	1,430,400	26⅝	+ ⅛
UNCO	1,397,200	19	+ ⅛

TRADING ACTIVITY

† Volume Millions	May 8	May 7	May 4
New York	144.230	132.760	140.550
Amex	11.641	9.421	10.443
NASDAQ	(u)	122.687	136.811
Issues Traded	1,969	1,992	1,953
Rises	798	947	1,017
Falls	642	553	459
Unchanged	529	492	477
New Highs	41	34	29
New Lows	52	41	41

CANADA

TORONTO	May 8	May 7	May 4	May 3	1990 HIGH	1990 LOW
Metals & Minerals	3011.50	3002.80	2940.20	2922.50	3453.05 (4/1)	2850.80 (23/4)
Composite	3438.00	3421.60	3367.90	3346.70	4009.47 (3/1)	3334.20 (1/5)
MONTREAL Portfolio	1783.03	1772.44	1742.02	1732.21	2060.90 (3/1)	1720.25 (27/4)

Base values of all Indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	May 7	May 4	May 3	May 2	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1478.0	1461.2	1467.7	1462.7	1713.7 (2/1)	1434.5 (30/4)
All Mining (1/1/80)	731.6	725.6	730.9	726.4	860.8 (5/1)	715.3 (1/5)
AUSTRIA						
Credit Aktien (30/12/84)	619.24	606.98	595.08	585.33	703.29 (19/3)	526.59 (2/1)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	6070.82	6096.99	6091.44	6082.07	6599.43 (2/1)	5568.16 (26/2)
DENMARK						
Copenhagen SE (3/1/83)	361.05	360.22	360.15	358.39	380.47 (28/3)	352.96 (25/4)
FINLAND						
Unitas General (1975)	570.4	576.2	575.5	573.3	677.3 (23/1)	570.4 (7/5)
FRANCE						
CAC General (31/12/82)	557.60	556.95	552.00	546.95	557.60 (7/5)	482.94 (26/2)
CAC 40 (31/12/87)	2119.83	2102.64	2098.95	2066.03	2129.32 (20/4)	1800.32 (26/2)
GERMANY						
FAZ Aktien (31/12/58)	809.43	803.91	791.46	776.15	830.92 (3/4)	732.71 (24/1)
Commerzbank (1/12/53)	2350.20	2333.5	2295.4	2251.0	2414.0 (3/4)	2151.5 (24/1)
DAX (30/12/87)	1934.95	1912.89	1881.79	1843.41	1968.55 (30/3)	1756.41 (24/1)
HONG KONG						
Hang Seng Bank (31/7/64)	2958.91	2946.97	2954.61	2957.76	3067.67 (19/4)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	(u)	1599.16	1587.80	1582.61	1893.10 (22/1)	1582.61 (2/5)
ITALY						
Banca Com. Ital. (1972)	703.30	700.03	694.34	689.86	713.06 (17/4)	646.73 (26/2)
JAPAN						
Nikkei (16/5/49)	30956.27	(c)	(c)	30173.64	38712.88 (4/1)	28002.07 (2/4)
Tokyo SE (Topix) (4/1/68)	2296.49	(c)	(c)	2247.81	2867.70 (4/1)	2058.82 (5/4)
2nd Section (4/1/68)	3628.36	(c)	(c)	3579.96	4284.68 (9/2)	3313.92 (5/4)
MALAYSIA						
KLSE Composite (4/4/86)	550.31	531.33	520.13	518.53	622.20 (20/2)	518.53 (2/5)
NETHERLANDS						
CBS Tl.Rtn.Gen.(End 1983)	256.3	254.9	254.0	252.8	269.0 (3/1)	240.1 (26/2)
CBS All Shr (End 1983)	194.0	193.0	192.6	192.4	206.3 (3/1)	184.2 (26/2)
NORWAY						
Oslo SE (2/1/83)	797.06	792.79	793.51	790.06	845.40 (16/3)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	976.82	953.47	952.17	963.08	1160.70 (21/3)	936.57 (30/4)
SINGAPORE						
SES All-Singapore (2/4/75)	418.54	408.37	402.97	401.61	443.34 (6/2)	401.34 (30/4)
SOUTH AFRICA						
JSE Gold (28/9/78)	1775.0	1732.0	1782.0	1703.0	2238.0 (16/1)	1692.0 (25/4)
JSE Industrial (28/9/78)	2896.0	2863.0	2848.0	2820.0	3211.0 (6/2)	2794.0 (25/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	791.56	782.33	750.82	(c)	928.82 (4/1)	688.66 (30/4)
SPAIN						
Madrid SE (30/12/85)	276.91	275.22	273.79	(c)	302.85 (4/1)	248.17 (2/4)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	1167.3	1160.7	1157.9	1156.7	1317.88 (12/1)	1127.20 (2/4)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	755.0	752.3	746.9	742.3	787.2 (11/1)	737.6 (27/3)
TAIWAN**						
Weighted Price (30/6/66)	8880.16	8624.70	8502.28	8574.54	12495.34 (10/2)	8502.28 (3/5)
THAILAND						
Bangkok SET (30/4/75)	(c)	862.97	856.45	851.25	918.67 (5/1)	760.39 (7/2)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	(u)	485.0	483.3	571.0 (4/1)	468.3 (2/4)

**Saturday May 5: Taiwan Weighted Price: 8943.39 Korea Comp Ex. 782.53

‡ Subject to official recalculation.

Apr6 Base values of all Indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday May 8 1990

	Stocks Traded	Closing Prices	Change on day
NKK	31.9m	616	+13
Sanyo Elec	29.7m	920	+50
Isuzu	28.9m	1,140	-10
Osaka Gas	27.3m	790	+10
Nippon Steel	26.7m	606	+6
MHI	25.4m	965	+12
Matsushita	20.3m	2,250	+120
Mitsui Eng&Shp	12.8m	939	-10
Hitachi	9.9m	1,610	0
Unitika	9.9m	775	+25

4pm prices May 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	20¼	AAR	.48	2.2	13	842	22	21½	22	+ ½
8¾	8	ACM n	1.01	12.		125	8¼	8⅛	8¼	+ ⅛
11⅝	10	ACMIn	1.26	12.		583	10¼	10	10¼	+ ⅛
9⅞	7¼	ACM M	n1.01	13.		188	7⅝	7⅜	7½	+ ⅛
12⅛	11⅞	ACMMM				271	11½	d11¼	11⅜	
11½	9⅞	ACM Sc	1.26	13.		638	9⅞	9¾	9⅞	
9⅛	8⅛	ACMSp	1.01	12.		486	8⅜	8¼	8⅜	+ ⅛
22⅞	14¼	AL Lab	.18	.8	18	55	21⅛	20⅞	21	+ ⅛
4⅛	3	AMCA	.20e	6.2	10	3	3¼	3⅛	3¼	+ ⅛
6⅛	2⅛	AM Inu			7	3454	2½	d 2⅛	2⅛	– ⅜
23¼	11⅜	AM In pf	2	17.		134	12	d11½	11⅝	
107¼	52½	AMR			12	1742	64¼	63¼	63⅝	
27	25	AMR pf	2.67	10.		6	26¼	26⅛	26⅛	+ ⅛
4¼	3	ARX				171	3⅛	3¼	3¼	– ⅛
72¼	39	ASA	3a	6.3		409	48⅞	47⅝	48	– ⅛
70⅛	54¼	AbtLab	1.68	2.4	17	3135	69	68⅛	69	+ ⅛
35⅛	27⅜	AbtLb wi				15	34⅜	34½	34¼	+ ⅛
17⅛	11¼	AbitibI g	.50			12	12¼	12⅛	12⅛	
13	8¼	AcmeC	.40	4.4	11	79	9	8⅞	9	+ ⅛
9¼	7⅝	AcmeE	.32	3.6	11	35	8⅞	8½	8⅞	+ ⅜
38½	28⅛	Acuson			21	269	36⅛	35⅞	36¼	+ ¼
16½	13½	AdaEx	2.06e	13.		139	15⅞	15⅛	15⅞	+ ⅛
15⅜	8½	Adobe				307	11	10⅞	10⅞	– ⅛
20¼	17¼	Adob pf	1.84	9.7		16	18⅞	18⅞	18⅞	– ¼
21⅝	19⅞	Adob pf	2.40	12.		5	20⅛	20⅛	20⅛	
10½	6⅞	AMD			19	5224	9	8⅞	9	+ ⅛
35	28¼	AMD pf	3	10.		218	29½	29	29⅛	+ ⅛
10⅛	4⅛	Advest	.16	3.6	56	156	4⅜	4½	4½	– ⅛
62½	45¼	AetnLf	2.76	5.5	9	1556	50¼	50⅛	50⅛	
14	9⅞	AlliPo	.24	2.4		x1694	10	9⅞	10	+ ⅛
25	16⅛	Ahmans	.88	4.9	8	2308	18⅛	17⅞	18	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 49

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	10	vjPNH pfE				8	21¼	21¼	21¼	
22	9⅞	vjPNH pfF				20	21¼	21¼	21¼	
22	10½	vjPNH pfG				55	21¼	21	21¼	
15⅞	10⅛	PSvNM			15	1512	10½	10⅛	10⅞	+ ⅛
29¼	24¼	PSEG	2.08	7.9	10	1471	26⅞	25¾	25⅞	+ ½
48¼	42	PSEG pf4.08		9.1		z460	44⅜	43½	44¼	+1¼
90¼	78½	PSEG pf7.80		9.3		z200	84	84	84	+ ⅝
85½	78½	PSEG pf7.40		9.4		z4900	78	78	78	
3¼	1⅜	PubSek			6	6	1⅞	1⅞	1⅞	
59½	41⅛	PR Cem	.60a	1.7	7	11	48	48	49	+ ⅛
22½	18½	PugetP	1.76	9.0	10	628	19⅞	19⅝	19⅝	
12⅝	9	PDP1 n	1.23	13.		279	9¼	9½	9½	
12⅞	10⅞	PDIF n	1.36	13.		168	11	10⅞	10⅞	− ⅛
8	6⅛	PHICS	.85	13.		216	6⅝	6⅝	6⅝	− ⅛
10⅜	9	PHYM n	.78	8.7		138	9⅛	9	9	
9½	7⅞	PIGIT	.98	12.		2061	8⅜	8⅛	8⅛	
12⅝	10⅝	PIGM n	.86	8.2		458	10⅝	10⅞	10½	− ⅛
10¼	8⅞	PMMI	.75a	8.2		436	9⅛	9	9⅛	+ ⅛
99¼	6⅝	PMBT	.87	13.		828	6⅞	6¼	6⅜	
9⅝	6⅞	PMIT	.93	13.		1066	7⅛	7	7⅛	
9⅛	6⅝	PPrIT	.93	14.		3531	6⅞	6⅝	6⅝	− ⅛
15⅝	7⅞	QMS			13	795	15¼	15⅛	15⅛	− ⅛
13-16	5-32	Quantel				39	7-32	7-32	7-32	
68⅞	46⅛	QuakrO	1.40	2.9	19	816	49½	48⅞	48⅞	− ⅛
18	11½	QuakSC	.80	6.7	28	489	12¼	11⅞	12	− ¼
18½	11⅞	Quanex	.40	2.6	8	143	15⅝	15½	15½	− ⅛
[illegible]										

— X—Y—Z —

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
68½	46	Xerox	3	6.3		14468	47⅞	47⅛	47⅞	+ ⅛
36⅝	21¼	XTRA	.72	3.2	27	99	22⅝	22½	22½	− ⅛
29	19	XTRA pf1.94		10.		193	19½	19⅝	19⅝	
4⅛	2⅛	Zapata				422	2⅜	2⅛	2⅛	
21⅜	7⅞	ZenithE				219	9½	9⅛	9⅛	− ⅛
21½	13½	ZeaNtl	.84	6.1	8	125	14	13⅞	13⅞	− ⅛
9⅛	6⅛	Zenix	.90	15.		158	6⅛	6	6⅛	
18½	12⅞	Zero s	.40	3.0	12	92	13½	13⅛	13⅛	− ⅛
44⅛	27⅞	Zurnin	.76	1.8	20	380	42⅞	42⅝	42⅞	
12⅝	10⅝	Zweig	1.21e	11.		317	11½	11⅜	11½	
10	8⅞	ZweigTl	.96	10.		1012	9⅜	9¼	9⅜	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices May 8

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

2pm prices May 8

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						
Wortng	.58	16 309	21½	21⅛	21⅛	+ ⅛
Wyman	.60	42	13¾	13½	13½	
— X—Y—Z —						
XL Dta		5 1163	10⅛	9⅜	9⅜	− ½
XOMA		2149	20¼	19¼	19¼	+ ¼
Xicor		231	2⅜	2⅛	2⅛	− ⅛
YanEnS	1.14e	11 31	19	18⅞	18⅞	+ ⅛
YelowF	.76	63 1627	29⅝	29⅜	29⅝	+ ⅛
YorkRs		22 1823	12½	11⅞	12½	+1
ZionUt	1.44	10 6	29	29	29	− ⅛

AMERICA

Prices jump at close after bond auction result

Wall Street

AFTER trading for most of the session in an extremely tight range, prices jumped at the close after it emerged that yesterday's three-year Treasury auction had gone well, *writes Janet Bush in New York*.

The Dow Jones Industrial Average closed 11.93 points higher at 2,733.55 on low volume of 145m shares. On Monday, the Dow had closed 11.26 points higher at 2,721.62.

Other indices also lifted in the closing minutes of the session. The broad-based Standard & Poor's 500 index, which had been marginally lower for most of the day, closed 1.49 points higher at 342.02 and the Nasdaq Composite ended 0.61 point up at 431.84.

Stock prices received a little support from moderate price gains in the Treasury bond market ahead of yesterday's $10.5bn sale of three-year notes and were further bolstered in late trading by news of a good auction. The Treasury's benchmark long bond was quoted ¼ point higher for a yield of 8.81 per cent in late trading.

There had been some optimism going into the three-year auction which was justified by the results. The average yield was 8.74 per cent and the Treasury received total subscriptions of $37.33bn, including a record $2.45bn of non-competitive bids, indicating strong retail interest.

Despite Friday's rally on weaker than expected April employment data which depressed yields below 9 per cent, yields are still relatively attractive.

The equity market is likely to continue to follow movements in the Treasury cash and futures markets as this week's refunding proceeds with a $10bn sale of 10-year notes today and the $10bn auction of 30-year bonds tomorrow. The week is capped off with April producer prices figures on Friday which are expected to have dropped slightly by around 0.1 per cent.

Yesterday's stagnation for most of the session was not surprising given this focus. The stock market rose in sympathy with bonds at the end of last week after April's apparently weak employment creation figures and rose on Monday despite the fact that Treasuries drifted lower. Yesterday's narrow trading range appeared to represent some consolidation from the recent string of gains. Mr Newton Zinder, technical strategist at Shearson Lehman Hutton, noted that, just over a week ago, the equity 73 market was in a short-term oversold condition but that this technical situation had been more than neutralised over the last several sessions.

Some stock analysts were fairly impressed with the market's ability to hold roughly unchanged yesterday morning given the fact that it had looked rather tired on Monday afternoon. The Dow had stood more than 20 points higher in mid-afternoon on Monday but then buying flagged.

Among featured issues yesterday was Texaco which added $⅛ to $58⅝ after the company said that it had replaced 105 per cent of its oil and gas reserves last year and that 1989 cash flow was some $3bn.

Baxter International added $⅜ to $22⅞ after the company said that it expected an increase of 15 per cent to 18 per cent in its operating income up to and including the end of 1993. The company also approved a buy-back of 13.5m common shares and two preferred stock issues.

Canada

SHARE prices couldn't keep up the pace set in yesterday's rally and closed with a modest gain in light trade.

The Toronto 300 Composite Index, up more than 50 points yesterday, gained 16.46 points to close at 3437.97.

A total of 19,243,000 shares valued at C$191.1m changed hands, down from 21,515,000 shares worth C$254.4m yesterday. Advances topped declines 303 to 287.

EUROPE

Profit-taking and Bayer results halt German rally

WEST GERMANY's 1.8 per cent fall yesterday was a normal and necessary correction after its recent surprise rally, according to analysts. Turnover in most bourses declined as markets focused on their own corporate and political news, *writes Our Markets Staff*. Paris was closed for a holiday.

FRANKFURT fell back as investors took profits after the market's 6.7 per cent rise in the previous four sessions. The DAX index lost 35.67 to 1,899.28, following a 3.60-point drop in the FAZ to 805.83 at midsession. Turnover, however, shrank from its recent active levels, suggesting that selling pressure was not heavy; the market was expected to resume its advance very soon, although there could be some caution before Sunday's state elections in North Rhine-Westphalia. Yesterday, DM6.9bn worth of shares were traded, compared with DM8.7bn on Monday.

Chemicals were mostly weaker after Bayer, which lost DM5.60 to DM300.80, announced a decline in first-quarter profits. However, dealers said that Bayer's figures were at the top end of expectations, and might have been better received in a rising market. Henkel went against the trend, rising DM4 to DM644.50 after announcing a profits rise in line with expectations.

Hoesch eased DM10 to DM356. The steel and engineering company reported good 1989 results, with net profits up 31 per cent, and forecast a healthy 1990. Asko, the department chain, was strong, adding DM36 to DM945. One observer said that the shares were considered to be relatively cheap.

MILAN ended mixed as the market digested the outcome of the local elections, which indicated that the coalition government would not undergo any significant changes. "These results should eliminate the uncertainty which has been hanging over the market," one analyst said. The Comit index rose 3.27 to 703.30.

Among featured stocks, Finarte, the holding company controlled by Mr Francesco Micheli, the financier, rose L100 to L7,300 and soared to L7,800 in the after-market on the news that it had wrested control of Interbanca, which specialises in long-term lending, from Banca Nazionale d'Agricoltura. Finarte has bought a stake from Banca d'America e d'Italia, Deutsche Bank's Italian subsidiary.

Montedison fell L17 to L1,957 and slipped to L1,940 after-hours, in spite of denying rumours that it would not pay a dividend for 1989.

AMSTERDAM saw strong demand for publishing stocks. Elsevier in particular, following some favourable articles about the company in West German newspapers. Elsevier rose Fl 1.30 to Fl 85.60 while VNU rose Fl 1.50 to Fl 95.30.

Brokers also reported reasonable turnover in Philips, which continued to slip following its poor results last week. The stock closed 30 cents off at Fl 32.80.

Bols, the distiller which expects improved net profits, rose Fl 4.50 to Fl 174.80.

In general, trading was dull and the news that the central bank had lowered short-term money market rates to 7.9 per cent from 8.0 per cent came too late to have an impact. Dealers expected the market to stay quiet before first-quarter reports from Unilever, due on Friday, and Royal Dutch, due next week. The CBS Tendency index rose 0.2 to 117.7.

MADRID was encouraged by the recent good corporate news, rising in better volumes. The general index gained 2.22 to 279.13 in turnover estimated as heavier than Monday's Pta11.4bn.

Asland, the construction company which announced 1989 results on Monday, had gained Pta40 to Pta5,740 by the end of the open outcry session.

STOCKHOLM advanced in small volumes, encouraged by a drop in money market rates to 13 per cent from 14 per cent. Forestry stocks staged the biggest gains, with MoDo free B shares rising SKr20 to SKr310 and Stora free Bs firming SKr11 to SKr300 on speculation that it would soon sell off some of its subsidiaries.

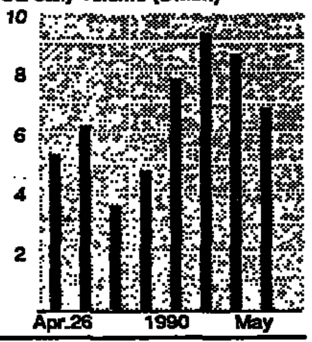
Ericsson free Bs fell SKr9 to SKr975, after their SKr27 rise on Monday. After hours, Ericsson said that its profit before taxes and appropriations had nearly doubled. The Affärsvärlden General index rose 4.4 to 1,171.7.

ZURICH finished above its day's lows as foreign buying of chemical stocks lifted prices. The Crédit Suisse index eased 1.7 to 595.3. Active trading saw Roche gain SFr40 to SFr3,610 and Ciba-Geigy bearers also add SFr40 to SFr3,110.

Bank Leu registered shares gained SFr158 to SFr2,400. Its board is due to decide tomorrow on CS Holding's offer for a majority stake.

W.Germany

SE daily volume (DMbn)



Mexico advances while Ireland falls further

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of year	% change sterling † Start of year	% change in US $ † Start of year
Austria	−1.16	−10.47	+82.66	+37.57	+34.28	+38.24
Belgium	+0.89	−0.61	−3.34	−7.19	−6.96	−4.23
Denmark	−0.35	−4.16	+17.49	−2.30	−1.83	+1.28
Finland	+0.57	−4.67	−19.17	−3.39	−3.96	−1.16
France	+1.67	+1.74	+22.94	+3.43	+3.60	+6.65
W. Germany	+4.73	−2.66	+39.13	+7.66	+5.85	+8.97
Ireland	−4.26	−7.14	+4.42	−6.54	−6.12	−3.35
Italy	+0.87	+1.20	+10.92	−0.34	−0.21	+3.16
Netherlands	−0.55	−3.13	+1.71	−6.19	−7.30	−4.57
Norway	+2.41	−3.60	+15.11	+11.52	+10.07	+13.31
Spain	+0.70	+8.73	−9.66	−8.94	−7.52	−4.80
Sweden	+0.52	−3.72	+12.83	−3.85	−4.80	−1.99
Switzerland	+1.63	−2.24	+7.53	−7.16	−3.37	−0.87
UK	+2.26	−3.06	−0.43	−11.06	−11.06	−8.47
EUROPE	+2.14	−1.59	+9.77	−4.90	−4.56	−1.23
Australia	+0.49	−3.49	−0.53	−10.65	−17.14	−14.69
Hong Kong	−1.23	−0.39	−10.28	+3.93	+1.11	+4.10
Japan	+1.88	+3.94	−14.01	−22.92	−32.01	−30.00
Malaysia	−0.41	−3.39	+14.97	−9.12	−12.07	−9.47
New Zealand	+1.62	+1.91	−7.71	−10.85	−16.82	−14.38
Singapore	+0.94	−0.82	+11.97	+2.64	+1.03	+4.00
Canada	+1.25	−6.76	−4.52	−12.89	−15.71	−13.23
USA	+2.74	−0.49	+9.10	−4.40	−7.14	−4.40
Mexico	+4.72	+11.03	+169.88	+37.09	+27.12	+30.86
South Africa	+2.66	−0.42	+26.66	+5.23	−12.26	−9.67
WORLD INDEX	+2.19	+0.54	−0.74	−11.94	−17.04	−14.59

† Based on May 4th 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Limited

By William Cochrane

AFTER four months of 1990, the stock market world is a poorer place than it was at the end of 1989. There have been many more declines than rises in the performance of country markets, and the FT-Actuaries World Index last Friday was down 11.94 per cent in local currency terms since December.

At the core of this setback were falls this year of more than a fifth in Japan, 4 per cent in Europe and a fraction more than that in the US. They put into perspective the recoveries recorded last week, when volume and interest were affected by May Day in Europe and Golden Week in Japan.

However, away from the core, there is an appealing consistency about Mexico, which came just behind West Germany as last week's top performer.

Mexico is an emerging market, but its inflation rate now looks nearer the European than the Latin American model. A 37.09 per cent rise in share prices this year translates into one of 30.86 per cent in dollar terms; the exchange rate is slipping at the rate of maybe one peso a day and the currency has devalued by 4 per cent against the dollar so far this year.

Ms Gillian Graham of Latin American Securities in London notes that Mexico's real growth was 3 per cent last year, against 1.1 per cent in 1988; 3.2 per cent is expected for 1990, she says, and President Carlos Salinas said last week that the authorities would try to keep the figure down to about 3 per cent to keep the economy in control.

West Germany came back into its own last week as the spectres of industrial unrest and escalating interest rates were put to flight. It saw agreement between employers and the IG Metall metalworkers' union as a test for wage and hours negotiations; and political and fiscal authorities joined forces to say that fears about monetary union between the two Germanys had been exaggerated.

On the downside, figures for Ireland suggest a picture of gently accelerating and consistent decline this year. However, there have been worse economic stories than Ireland's over the past 12 months.

Early last year, says Mr Jim O'Leary, chief economist at Davy's, the Dublin stockbrokers, its retail sales were growing at 7 to 8 per cent a year in volume terms, construction and investment were expanding apace and there was also quite rapid growth in exports.

Thus, he says, the central bank was predisposed to tighten monetary policy, took its interest rates up faster than the rest of Europe, and ended the year with a rise of 4 percentage points against 2½ in West Germany.

That curtailed the economic recovery which started as recently as mid-1988; but inflation is expected to fall from about 4 to 3 per cent this year, and the country is left with a robust currency, which has shown significant appreciation against sterling. Ireland has 30 per cent of its bond issues already in the hands of foreign investors – most of them West German – and is hoping that they will discover its equity market in the 1990s.

ASIA PACIFIC

Nikkei makes slight gain in choppy trading

Tokyo

SHARE PRICES ended with modest gains as strong buying interest was offset by profit-taking, *writes Michiyo Nakamoto in Tokyo*.

The Nikkei average fluctuated in choppy trading to close higher for the fifth session in a row 14.31 higher at 30,970.58. During the day, the leading index breached the 31,000 mark for the first time since March 29, to touch an intraday high at 31,039.88 while the day's low was 30,729.52.

Gains led losses by 622 to 338 and a further 145 issues closed unchanged.

Turnover improved to 750m shares, up from 600m on Monday. The Topix index of all listed stocks added 7.11 to 2,303.60. In London, the ISE/Nikkei 50 index rose 2.28 to 1,761.77.

Although equities succumbed to widespread profit-taking, sentiment continued to be good. The market was also relieved that the possibility of higher global interest rates appeared to be receding.

Analysts expected investors to move from theme to theme, or issue to issue, as they tested the strength of the market's recovery. "The market has just been through a serious illness," commented Mr Yoshio Miyauchi at Shearson Lehman Hutton Asia.

The market was likely to regain ground in a staggered fashion since strong price rises would prompt investors to lock into profits.

Issues with strong buying incentives remained in demand, especially for companies involved in making high-grade batteries. This theme had been sparked off by the news that Isuzu had developed a battery capable of storing substantially more energy than conventional batteries can.

But then investors had turned their attention to Osaka Gas, which has also come up with its own high-performance battery, and gained Y10 yesterday to Y790. Isuzu fell Y10 to Y1,140 in the face of profit-taking, and passed the baton to Sanyo and Matsushita, which also make batteries. Sanyo, which was second in volume at 29.7m shares, gained Y50 to Y920 and Matsushita, also actively traded, rose Y120 to Y2,290.

The stabilisation of the yen has shifted investor interest back to stocks which would benefit from strong domestic demand. Steels and heavy industries were actively bought, with NKK, the steel company, topping the actives list with 31.9m shares. NKK gained Y13 to Y616 while Nippon Steel advanced Y6 to Y606.

A front-page news report in a leading Japanese financial daily which forecast a record recurring profits for Mitsubishi Heavy Industries (MHI) of Y165bn, up 18 per cent, in the fiscal year to March 1991, encouraged active interest in MHI, which rose Y12 to Y966.

The OSE average in Osaka posted a strong gain of 331.69 to 33,437.67 in mixed trading. Domestically oriented issues were actively pursued and turnover rose to 73m shares from 64.9m on Monday.

Roundup

PROFIT-TAKING reduced or wiped out early rises in many Asia Pacific markets yesterday.

AUSTRALIA lost early gains to close little changed. The All Ordinaries index eased 1.0 to 1,476.9 in volume of 58m shares worth A$131m, down from Monday's 106m and A$135m.

Barrack Mines, which has fallen since its leading shareholder decided to sell its stake, dropped 15 cents to 70 cents. The Stock Exchange said that it was monitoring Barrack's fall. Metana, which has fallen since the failure of a share issue, lost 15 cents to 60 cents.

Elders IXL, which had been recovering from recent losses, dropped again, losing 4 cents to A$1.91. ANZ Banking slipped 2 cents to A$5.06. Australian Ratings, the agency, said that it was reviewing, and might downgrade, the bank's credit rating because of its merger with National Mutual Life.

SEOUL's composite index edged higher, but losses outnumbered gains by 546 to 144. The composite index ended 4.98 up at 796.54 in heavy volume of 16m shares worth 208.7bn won. After the market closed, the Government announced an economic package, including the setting up of a new offshore fund, the Korea Asia Fund, further curbs on real estate speculation and a cut in the securities transaction tax.

JAKARTA rose in active trading of several new issues. Duta Anggada, the real estate company, rose to 8,250 rupiah from its issue price of 7,500 rupiah, while BBL Dharmala, the leasing company listed on Monday, eased 500 rupiah to 6,900 rupiah. The index gained 1.04 to 642.98 in volume of 5.5m shares, up from Monday's 1.4m.

TAIWAN recouped Monday's loss after a ¼ point cut in the prime rate by four leading commercial banks. The weighted index gained 68.33 to 8,948.49 in light trading. Plastics companies rose on the news that the Government was continuing negotiations with villagers, who had been protesting at plans for a fifth naphtha plant at the Kaohsiung Refinery.

NEW ZEALAND's five-day advance came to an end in active trading. Early foreign buying was followed by profit-taking, leaving the Barclays index down 11.44 at 1,709.93. Turnover was 19m shares worth NZ$21m, up from Monday's 9m and NZ$14m. HONG KONG also ran out of steam, with the Hang Seng index ending down 5.33 on profit-taking at 2,953.58, after rising more than 15 points earlier. Turnover was relatively busy at HK$1.23bn, up from HK$1.12bn.

SINGAPORE ended mixed, with the Straits Times Industrial index up 1.95 at 1,516.43, after an earlier rise was trimmed by profit-taking. KUALA LUMPUR also finished below its day's high as investors took profits. The composite index closed 4.42 higher at 554.73.

SOUTH AFRICA

JOHANNESBURG built on Monday's gains, prompted by positive feedback from recent talks between the Government and the ANC and a steady gold price. The JSE overall index rose 51 to 3,228. De Beers rose R2.75 to R100.75.

FT-ACTUARIES WORLD INDICES

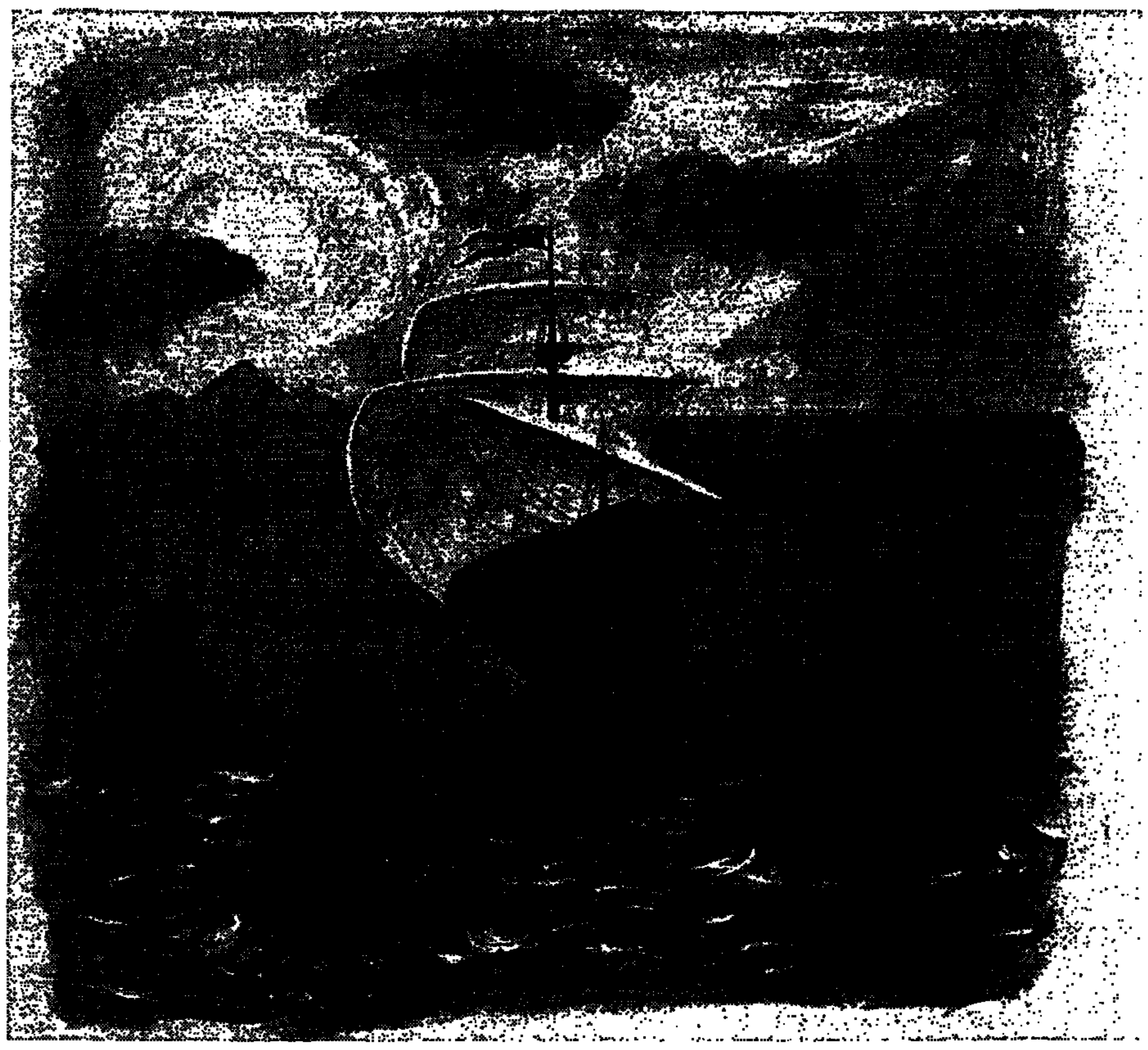
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	TUESDAY MAY 8 1990 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	MONDAY MAY 7 1990 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (81)	131.31	+0.1	116.61	115.41	+0.0	6.01	131.23	116.58	115.39	158.31	125.85	135.88
Austria (19)	259.73	+1.2	230.65	223.87	−0.1	1.19	256.66	227.92	224.12	285.63	193.15	122.81
Belgium (61)	149.00	+0.9	132.32	125.65	+0.4	4.63	148.74	132.14	125.39	180.02	132.11	132.07
Canada (120)	134.12	+0.2	119.11	113.00	+0.3	3.52	133.67	118.82	112.69	153.61	130.37	134.42
Denmark (34)	247.76	−0.6	220.04	212.14	−0.4	1.56	249.22	221.40	213.02	260.62	236.98	180.30
Finland (26)	132.04	+0.2	117.25	108.81	+0.0	2.52	131.82	117.11	108.71	152.29	129.99	150.21
France (125)	168.46	−0.2	149.61	147.20	+0.0	2.78	168.75	149.91	147.20	169.75	141.69	117.86
West Germany (93)	136.42	−0.6	121.16	117.55	−0.5	1.88	137.28	121.96	118.09	137.71	122.05	84.69
Hong Kong (48)	122.35	−0.2	108.65	122.40	+0.0	5.06	122.62	108.93	122.40	126.90	112.24	138.37
Ireland (17)	177.55	−0.1	157.68	154.46	+0.1	2.78	177.71	157.87	154.26	196.57	172.72	145.48
Italy (96)	102.59	−0.3	91.11	93.17	−0.2	2.46	102.95	91.46	93.36	103.73	91.65	79.56
Japan (454)	142.02	+0.3	126.12	141.70	+0.1	0.58	141.56	125.85	141.54	197.26	124.40	190.59
Malaysia (35)	215.10	+1.5	193.68	226.97	+1.3	2.37	214.82	190.84	224.04	245.32	204.15	182.70
Mexico (13)	424.74	+0.3	377.18	1310.98	+0.5	0.40	423.26	376.01	1304.10	425.92	324.53	181.85
Netherland (43)	139.39	+0.0	123.79	118.59	+0.1	4.75	139.43	123.87	118.44	145.88	130.43	118.42
New Zealand (17)	61.76	−0.4	54.85	57.05	−0.7	7.69	62.00	55.08	57.45	75.36	59.57	71.69
Norway (23)	228.18	+0.3	202.63	199.53	+0.3	1.56	227.39	202.01	198.84	243.90	202.34	166.45
Singapore (25)	191.57	+0.2	170.12	164.96	+0.2	1.83	190.61	169.51	164.57	199.38	179.70	155.76
South Africa (60)	187.73	+3.4	166.72	167.15	+2.1	3.54	181.56	161.29	163.66	231.39	173.80	134.79
Spain (42)	158.72	+0.6	140.96	124.78	+0.8	4.26	157.78	140.17	123.81	165.19	132.84	153.61
Sweden (35)	191.20	+0.0	169.80	171.11	+0.0	2.35	191.20	169.86	171.03	208.95	176.39	156.29
Switzerland (65)	93.87	−0.6	83.36	83.36	−0.3	2.49	94.41	83.87	83.64	99.12	88.75	72.59
United Kingdom (306)	147.40	+0.9	130.90	130.90	+0.9	5.05	146.04	129.74	129.74	164.31	139.87	145.35
USA (537)	138.21	+0.4	122.74	138.21	+0.4	3.51	137.61	122.24	137.61	145.40	130.81	124.35
Europe (985)	142.49	+0.2	126.54	123.95	+0.3	3.61	142.24	126.36	123.64	145.66	135.57	118.50
Nordic (118)	191.08	−0.2	169.68	160.85	−0.1	1.96	191.41	170.05	161.00	201.89	180.51	153.79
Pacific Basin (660)	140.86	+0.2	125.09	139.61	+0.1	0.91	140.53	124.84	139.66	192.75	124.63	186.39
Euro-Pacific (1645)	141.69	+0.2	126.01	133.60	+0.1	2.01	141.59	125.79	133.88	174.16	130.35	159.23
North America (657)	137.87	+0.4	122.43	136.55	+0.4	3.51	137.29	121.96	135.98	145.78	131.02	124.88
Europe Ex. UK (679)	137.45	−0.3	122.06	118.05	−0.1	2.76	137.80	122.42	118.18	137.80	124.81	101.20
Pacific Ex. Japan (206)	126.45	+0.6	112.30	115.02	+0.0	5.26	125.40	112.29	115.04	139.32	122.53	132.38
World Ex. US (1838)	141.99	+0.2	126.31	133.84	+0.2	2.07	141.88	126.04	133.58	173.77	131.30	159.14
World Ex. UK (2069)	138.99	+0.3	123.43	135.64	+0.2	2.30	138.64	123.16	135.35	162.00	130.80	144.85
World Ex. So. Af. (2315)	139.43	+0.3	123.82	134.92	+0.3	2.55	139.03	123.51	134.57	161.94	131.95	145.04
World Ex. Japan (1921)	139.93	+0.3	124.27	131.97	+0.4	3.61	139.45	123.88	131.49	145.52	134.82	122.97
The World Index (2375)	139.72	+0.3	124.08	135.15	+0.3	2.56	139.29	123.74	134.77	162.05	132.26	144.97

French market closed May 8.

SECTION III

FINANCIAL TIMES SURVEY



International BANKING

Illustration: Chris Priestley

Editorial production: Martin Davies

The Third World debt tempest is abating, but new perils lie ahead, from losses on loans made to real-estate companies and from highly-leveraged transactions, warns David Lascelles. Successful navigation is likely to depend largely on the interest-rate climate.

Still more rocks ahead

IF THE banking industry were *a ship – a galleon might be a* better metaphor – it could claim to have safely navigated the reefs of Third World debt over the last year or two. But there are still some nasty rocks on the way to the Eldorado on the horizon.

Those rocks have forbidding names on them, like highly leveraged transactions and real-estate loans. The galleon may be able to get upwind of them, so long as the storms of recession do not blow too hard. Fortunately, the ship has a new copper bottom to it, following a thorough capital refit over the last couple of years. But the captain and crew will have to be on their toes.

Actually, the picture of the banking industry sailing into choppy waters is hardly a new one. Bankers always seem to be heading for trouble. But for once, the rocks astern look rather uglier than those ahead.

The banking industry may now be said to be past the worst of the Third World debt crisis, which was itself the gravest danger facing it since the last war. Indeed, following the tens of billions of dollars worth of provisions which they have made over the last three years, many of the world's leading banks could now afford *to write off most of their Third* World exposure. "The end of an era," was how Sir John Quinton, the chairman of Barclays, the UK's largest clearing bank, described the £1bn of provisions which his bank made in February.

But the provisions have also had the less welcome effect from the banks' point of view of increasing the pressure on them to remit part of their loans. Although many of them participated in last year's formal debt reduction by Mexico, it was only with some reluctance and much muttering of "never again". None the less, political weight is being brought to bear (for example, the UK government recently introduced tax benefits for banks which sell Third World loans back at a discount); and few people doubt that, in the long run, cancellation will playa major part in some guise in easing the debt burden.

But if Third World debt has now been consigned to the more hum-drum level of banking priorities, the same cannot be said of the dangers ahead. The perils of losses on lending to real-estate companies and highly leveraged transactions have begun to grow, particularly in the US.

The recent batch of first-quarter results from the US banks showed how bad things could become. Many banks reported sharp falls in profits, mainly because of the collapse of the north-east property market. This in turn prompted a marked decline in US bank share and bond prices, and caused Moody's to announce that it was considering whether to reduce the credit rating of Citicorp, the largest US banking group.

These concerns are echoed in other markets, mainly the UK and Japan, where banks have taken on similar exposures to property and leveraged deals, though not on anything like the US scale. The recent warning by Sir Kit McMahon, the Midland Bank chairman, about falling profits was, however, a sobering moment for the UK market.

Whether these problems rise to engulf the banks in yet another crisis remains to be seen, and will be determined mainly by the future course of interest rates. Though they could never match Third World debt in magnitude, they are sapping confidence because their exact size cannot yet be measured.

In one sense, the problems are being forced out into the open by banking regulators who are taking a much tougher line than before. In the US, officials are demanding bigger real estate provisions, and have expanded their definition of highly leveraged deals with the result that the numbers now look much bigger.

By the same token, though, supervisors are also pursuing their campaign for stronger balance sheets and capital ratios. Two years of the five-year phase-in period for the Basle agreement on capital adequacy have now passed, and it looks as if most banks will meet the new levels by early 1993.

If there is a worry about the effect of the agreement, it is that, by raising banks' capital costs, it makes it harder for them to earn a profit. This, in turn, forces them to take greater risks and involve themselves in shakier deals. Taken to its extreme, the Basle agreement could thus become self-defeating, though supervisors naturally expect banks to raise their profits through better management rather than going for the longer odds.

And this is happening, too. Banks are deeply preoccupied with cutting costs. Many have also rediscovered the virtues of their traditional domestic retail markets, where the private individual and the small businessman provide a stable and profitable supply of business. Banks like Chase Manhattan, Manufacturers Hanover, Lloyds and Barclays have also built up operational services like transaction-netting and global custody which, while unglamorous, can reap higher-quality earnings than eye-catching financial engineering.

*Another important house*keeping chore is being conducted by the Group of Thirty, a club of top commercial and central bankers. They have launched a campaign to strengthen the infrastructure of banking, in particular the settlement systems through which banks pass billions of dollars worth of payments a day. Like the Basle agreement, this too should help reduce the isks of banking, and is a further reflection of the attention that is now being paid to the structural fabric of the whole industry.

In Europe, the finishing touches are now being put to arrangements for the single market in banking, which takes effect at the end of 1992. The preparations have proved surprisingly political, particularly because of the possibility – now dispelled – that non-EC banks might find their access limited by reciprocity provisions.

Under the proposed "passport" system, EC registered banks will be able to offer a wide range of financial services throughout the Community without having to obtain local authorisation. But, striking though the possibilities might seem, the effect is only slowly appearing on the face of European banking.

Contrary to earlier predictions, there has not been a wave of large cross-border mergers. Indeed, one of the few so far proposed, between Amro of the Netherlands and Générale Bank of Belgium, collapsed last year. The only successful deal of any size has been the £950m acquisition of the Morgan Grenfell merchant bank by Deutsche Bank, though this was of specialist rather than general interest.

At a secondary level, the effect is already quite marked. A growing network of alliances is emerging among the *smaller* banks, as they seek partners to expand their geographic reach and jointly market products. And within particular countries there has been a conspicuous process of concentration through bank mergers, in the Netherlands, Italy and Denmark in particular.

Europe has acquired an extra dimension with the democratic reforms in the east. But, though banks are taking an intense interest in develop*ments over there – particu*larly the Germans who are opening up chains of branches – it is not yet clear whether they amount to hard business opportunities.

Bankers are understandably reluctant to open the credit taps too wide while these economies face highly uncertain times. Yet the prospects for trade and project finance must be enormous, as must the opportunities for selling banking technology and know-how to countries where commercial and retail banking practice is virtually unknown.

The comparatively liberal EC regime is encouraging banks to diversify into securities, insurance and other services – a trend which may be accelerated if deregulation takes hold in the US and Japan as well. Though this is blurring the traditional definition of a bank, there is also a strongly-held contrary view in banking circles that, as banks get bigger and more unwieldy, the successful institution may turn out to be the one that does a few things well rather than many unremarkably.

These are the sorts of strategic issues that confront bankers as they embark on the 1990s – a period that all of them expect will bring big changes. But first they have to navigate the tricky passage immediately ahead. The new decade could thus be a time of promise, but it may start with some casualties.

Andrew Marshall paints an economic backdrop of...

Opportunity and anxiety

THE INTERNATIONAL Monetary Fund's policy-making interim committee meeting, in Washington this month, took place against the background of both rising optimism about the world economy and rising fears.

The optimism is partly a result of the dismantling of the socialist bloc. The reconstruction of Eastern Europe is creating opportunities for investment, trade and growth. The decline in tension between the US and Soviet Union also promises to allow a reduction in defence expenditure and an increase in bilateral trade. At the same time, western Europe is on the verge of a single market, and seems eager to move on to unify its currencies and economies.

But fears of a credit crunch have also emerged as the world economy enters the 1990s. Rising inflation, increasing demand for capital, and the delayed effect of a borrowing binge in the 1980s are taking their toll on financial markets, and some economists fear that the effect may be to reduce growth below its potential.

Central banks have tightened policy to cope with last year's rise in inflation, with only partial success. The IMF expects inflation to fall for the seven major economies as a whole this year. But the inflation rate in Britain is hovering at just over 8 per cent, nearly double the average posted between 1983 and the first half of 1988. In the US, core inflation reached an annual rate of 7.5 per cent in the first quarter, after running at 4 to 4.5 per cent for the previous six years.

There is increasing demand for funds to rebuild the economies of eastern Europe. At the same time, the broader international debt crisis remains unresolved. Of the three major Latin American debtors, only Mexico has benefited from the Brady Plan for debt reduction. Argentina and Brazil, both experiencing the joys of democratic government for the first time in years, labour under large debt burdens that seem insoluble.

The US, the world's major debtor, is not in a position to bail out either eastern Europe or Latin America. Its federal budget deficit is falling. But the US faces stiff problems in mopping up the effect of financial problems in its own backyard, in particular the savings-and-loans crisis.

The IMF, say press reports, forecasts that the US current-account deficit will widen this year to about $124.6bn, and to about $141.2bn in 1991, having narrowed last year to about $105.9bn.

But the world's major capital exporters in the 1980s – West Germany and Japan – both face problems adjusting to the new realities of the 1990s. Germany is in the process of incorporating East Germany, at the cost of higher federal spending, and possibly an increase in inflation as a result of German Monetary Union. Bund yields have been rising, and the Bundesbank has warned that the inflationary consequences of monetary union could require further official rate rises.

The turnaround in fortunes is more marked in Japan, where equities and bonds have plunged, and the yen fell to its lowest level for around three years against the dollar. There is also concern that land prices may be dragged down by the decline in equities, resulting in bankruptcies as the asset price inflation bubble bursts.

Four increases in Japan's Official Discount Rate since last June have raised the overall interest rate structure to new highs. According to the IMF, Japan will have the strongest growth and lowest inflation of the Group of Seven countries in 1990, at 4.6 per cent and 1.7 per cent respectively. But the current account surplus for this year is forecast at 2 per cent of GNP, unchanged from last year, and well down on last September's forecast of 2.9 per cent for 1990. The days when Japanese capital exports could be relied upon may be passing.

So far, the outlook for growth is relatively healthy for the industrialised countries, though expansion is expected to slow. Growth in the leading industrial nations might average 2.8 per cent this year, against 3.4 per cent in 1989, according to the IMF.

The costs seem likely to be borne disproportionately by the US and the UK. The IMF forecasts that the US economy will grow by only about 1.7 per cent in 1990, rather than the 2.4 per cent forecast by the Treasury, against 3 per cent last year. Britain will have the lowest growth, highest inflation and the biggest current-account deficit as a percentage of economic size of the G-7 leading industrial countries this year, says the Fund.

Bluford Putnam, chief international economist at Kleinwort Benson, says: "Economic growth is almost certain to suffer, as many good projects go unfunded along with the bad ones." However, he argues, "the result of a global credit squeeze is not likely to be a world recession, because governments can be expected to alter policies to ease the more negative effects if and when they appear."

But the process of economic co-operation, born in the 1980s to handle instability in international markets and co-ordinate policy, is fraying at the edges as it comes under pressure from all sides. When the G-7 met in Paris in March, it was were unable to agree more than an anodyne statement of support for the yen.

David Hale, of Kemper Financial Services, says the buzzword for the new decade is "multilateral overconvergence". In the 1980s, Europe and Japan pursued restrictive fiscal policies, and bank lending to the developing countries collapsed.

Consequently, America's large budget deficits "did not set the stage for an inflationary monetary policy: they turned the US into the world economy's de facto borrower and spender of last resort... Now the global financial equilibrium produced by the divergent but complementary savings behaviour of Japan, Germanic Europe and the Anglo Saxon world is crumbling." In its place is a disequilibrium, produced by the desire of all the major economies to sustain non-inflationary growth with strong currencies.

The impact of a growing credit crunch, and lack of measures to mitigate it, would be yet more severe on the highly indebted economies of the Third World. Many are either embarking on, or half-way through, programmes of structural adjustment.

Smaller debtor nations fear that, with the attention of the world turning to eastern Europe, and limited resources, they will be left to their own devices. This could lead to further financial disruption in the debtor countries, possibly intensifying the squeeze on credit.

Towards 1992 — and the world's largest single market

Early alliances fail to impress

THE PROSPECT of a single European market for banking after 1992 has become a very beguiling one for bankers — but one for which they do not seem terribly sure how to react.

On one hand, the recent flurry of bank mergers in countries like the Netherlands and Scandinavia suggest that a big shake-out may be getting under way. On the other, there have been very few major cross-border moves which would support the view that 1992 will alter the face of European banking very quickly.

"There is no such thing as a pan-European bank, and you won't see it for 20 to 30 years," says Mr John Tugwell, the

More conspicuous was the failure of the proposed merger between Amro and the Générale Bank of Belgium

chief executive of international business at National Westminster, the UK's second largest clearer. "But if you look at individual customer segments, then there will be benefits from the single market."

Over the last 12 months the EC has put into place much of the infrastructure for a single banking market. The Second Banking Directive, which forms the cornerstone, is virtually complete, and other technical regulations are being finalised. A potential row with the EC's trading partners over access to each others' banking markets was averted when Brussels toned down the wording of a proposed reciprocity clause.

So it is now up to bankers to make what they can of what will be the world's largest single market, with 325m people. A survey by the Bank of England last year found that banks expected to see few major changes in the big corporate and wholesale banking markets, because these are almost totally international anyway.

There would also be few quick changes at the opposite end – in retail banking – because of the strong national character of the personal banking industry. But in between, there could be changes, for example in growing cross-border sales of financial services to wealthier, internationally mobile people, and the standardisation of banking products for a wider segment of the middle corporate market.

The prospect of 1992 has certainly spurred an acceleration in cross-border alliances by banks. In the last 12 months:

☐ Crédit Lyonnais bought a bank in Italy;

☐ Banco Hispano Americano, of Spain, bought 5 per cent of Commerzbank, and the two are now looking for further partners;

☐ NatWest bought out Van Lanschot, its part-owned Dutch merchant bank;

☐ Standard Chartered and Westdeutsche Landesbank formed a joint merchant banking venture;

☐ Six European co-operative banks launched reciprocal services through Unico, their trade group; and, most conspicuous of all –

☐ Deutsche Bank spent £950m acquiring Morgan Grenfell, the London merchant bank.

But many analysts believe that most of the deals are, arguably, either too small or too specialised to count as major milestones on the European scene. In a recent study KPMG Peat Marwick McLintock, the accountancy firm, noted the strong emergence of new groupings via cross-shareholdings and marketing agreements, but commented: "The takeover of larger institutions that many people thought would happen is yet to come."

More conspicuous, in a way, was the failure last year of the proposed merger between Amro of the Netherlands and the Générale Bank of Belgium after management of both banks had got cold feet. This was widely seen as indicative of the huge problems that banks will have in linking up across borders.

Equally significant was the fact that it was not a European, but an Australian bank, which won the bidding for the Yorkshire Bank last January. The £960m deal was the most important European retail banking sale of recent times, but it showed that EC banks are still not prepared to lay out big money to expand into another member state, even though bankers frequently complain about how few good banks there are available to buy.

But if there has been an absence of aggressive cross-border buying, there has been no shortage of defensive consolidation in and around the EC. After Amro had failed to make it with Générale Bank, it promptly teamed up with ABN, the Netherlands' other leading bank. This happened only a short while after two other Dutch banks, NMB and Postbank, had also got together.

In Denmark, the six largest banks coalesced into only two groups. "In Denmark, as well as in other countries, the banking sector is facing a highly competitive environment," said Mr Lars Eakesen, deputy chief executive of Unidanmark, one of the two new banking groups. "The mergers will create an even more intense competitive climate."

There have also been marked consolidations in Spain and Italy, as well as in non-EC countries like Switzerland, Sweden and Norway, where banks are not immune to the mounting pressures.

The consolidation may also occur across industrial borders as well as geographic ones. The expansion of the leading German banks like Deutsche and Dresdner into life insurance has paralleled similar moves by banks in France and by Lloyds Bank in the UK. Banks are also expanding into the securities industry and fund management, taking advantage of the wide definition of banking activity that was deliberate built into the EC directive.

Nor has the allure of 1992 been confined to EC banks. Banks from other regions, notably North America, Japan and Australia, have been actively expanding their activities in the Community. Much of this has occurred in London, which is consciously defending its place as Europe's leading financial centre, but also in France, Spain and Germany, the latter with half an eye on East Europe as well.

Mr Larry Uhlick, executive director of the Washington-based Institute of International Bankers, even proposed

Equally significant, it was not a European, but an Australian bank, that won the bidding for the Yorkshire Bank

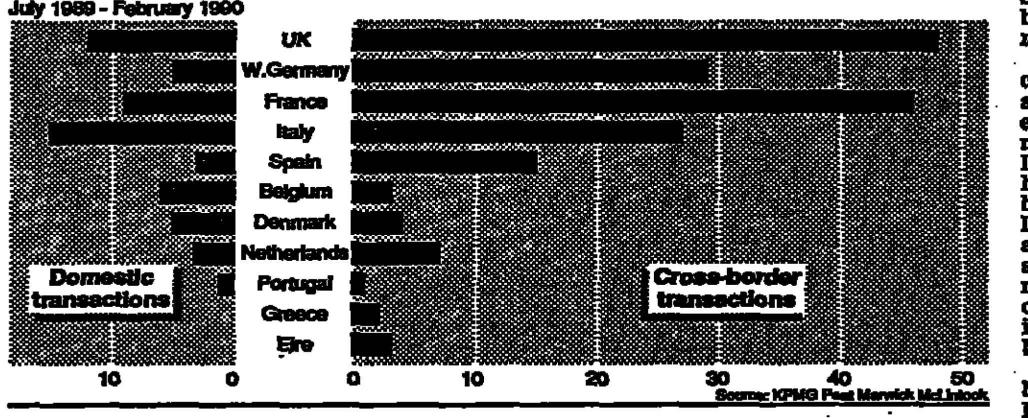
recently that the EC could unify its banking market with the US and other developed countries through a common regulatory system.

But, as yet, the future structures of the European banking market remain hard to discern. Bankers are clearly keeping sharp eyes on their business and on each other. The fear that the single market will produce powerful behemoths is also forcing banks on the fringe to seek safety in numbers. But among the big players, banking is living up to its reputation as an industry where structural change only comes about slowly, and where the cautious approach pays off.

David Lascelles

Mergers and acquisitions of financial institutions

July 1989 - February 1990



Case study: Amro & ABN

A pragmatic engagement

THE PLANNED merger of the two biggest banks in The Netherlands, Amsterdam-Rotterdam Bank (Amro) and Algemene Bank Nederland (ABN), is a marriage of convenience and one that would raise eyebrows in most industrialised countries.

The combined bank would command nearly 40 per cent of Dutch banks' assets, control as much as two-thirds of trade on the Amsterdam bourse and dominate lending to big Dutch companies. It would also rank number one in consumer credit in their home market.

But in The Netherlands, where the banking community remains a gentlemen's club, the proposed marriage is viewed as a pragmatic solution to narrowing options. As medium-sized banks on a world scale, they face an increasingly competitive Europe after 1992, more international financial markets and dizzying technological change.

To meet these challenges, more banks are casting themselves as "global players."

"Whoever wants to belong to this group of global players must be possessed of a very strong capital base, perfect automation and an arsenal of highly qualified staff," said Mr Robert Hazelhoff, chairman of ABN, when the engagement was announced in March.

He and his counterpart at Amro, Mr Roelof Nelissen, described their plans as an offensive strategy, carving out a global niche in capital markets, trade finance, private banking and mergers and acquisitions. They believe size would make foreign acquisitions easier. But Mr Wim Kok, the finance minister, described the envisaged merger as a defensive move, though clearly justifiable, when he gave his blessing. The central bank also approved.

An earlier bid by Amro, to link up with Générale Bank of Belgium, failed, while ABN has simply claimed that it would carry on alone. Mr Nelissen and Mr Hazelhoff admit that they probably would have been denied permission to marry in the past, but stiffer international competition is changing regulators' minds.

Amro, the largest bank in The Netherlands, and ABN, a close number two, would have a combined balance-sheet total of Fl 358bn ($185bn), 1,473 branches (including 375 abroad) and 55,700 workers. A merged bank would rank sixth in Europe, and 16th worldwide, based on 1988 figures.

Both are products of numerous mergers over the past century but have different corporate cultures. Amro is aggressive and dynamic, ABN cautious and tradition-bound.

They must weave together these cultures, streamline their operations, improve profitability and succeed in their chosen market niches, according to analysts, many of whom are sceptical, arguing that cost savings and improved profitability will take time.

Mr Matthew Czepliewicz, an analyst for Credit Suisse-First Boston, believes the merger would cost Fl 5.95 per share "upfront" and Fl 5.95 "deferred" in 1989 and more in 1990. The amount of streamlining will be decisive. Analysts generally agree that at least 15 per cent of the workforce needs to be trimmed.

Trade unions have won a conditional guarantee of no forced lay-offs from the banks, which insist that employees accept different jobs, status and hours.

To execute the merger Amro and ABN will jointly set up a holding company that will issue one new share for one Amro and two ABN shares. They hope to complete the merger in four years.

ABN will get the upper hand in running the new institution, because Amro cannot afford another failure, according to some speculation inside the banks. Mr Nelissen, aged 56, and Mr Hazelhoff, 60, are nearing retirement, so a new chairman from outside might make be appointed a a sensible Dutch compromise. Some wits have suggested Rambo.

Laura Raun

Eastern Europe: economic change may be more elusive than political reform, says **Deborah Hargreaves**

Cautious lenders will remember Latin America

THE GAP-toothed Berlin Wall will soon be dismantled completely, removing the most powerful symbol of the struggle for freedom in eastern Europe.

But as pluralism is re-established on the grave of communism, eastern European countries may find their hardest task is yet before them. The transformation of Comecon's impoverished economies could turn out to be much more elusive than political reform.

Western bankers have presided over the political euphoria of eastern Europe in characteristically phlegmatic style with more sang-froid than the politicians. They know they have an important role to play in steering the bulky inefficiencies of state planning towards some measure of flexibility along the road towards a market economy.

A country's record on debt-servicing can be decisive in the eyes of bankers

But the commercial banks are reluctant to throw themselves wholeheartedly into the unwieldy bureaucracy which remains communism's most resilient legacy to the east European nations. They will not forget the Latin American debt crisis, and are mindful of the deteriorating creditworthiness of most countries in Eastern Europe – both of which increase their caution over embarking on another round of loans to sovereign borrowers.

The best course for eastern Europe's efforts at reconstruction would be to establish ties with commercial enterprises in the west, which can subsequently borrow on their own credit funds for building joint ventures. However, even this route is fraught with uncertainty, since most lenders are demanding some sort of guarantee for projects from central banks in Eastern European countries.

"There is a lot of interest in eastern Europe, but also a lot of caution about committing new funds – more caution than the governments would like," says an official at Morgan Grenfell, the UK investment bank.

Some of the loan initiatives to the region may be co-ordinated by the umbrella organisations of the European Investment Bank (EIB) and the newly-formed European Bank for Reconstruction and Development (ERBD). The EIB will concentrate on lending in traditional ways to East European governments, while the ERBD is likely to be involved in more project finance initiatives.

Bankers differentiate between eastern European countries, and favour those they regard as a better credit risk. In doing this, countries' records on debt servicing can be decisive.

Czechoslovakia is regarded by many western banks as the best credit risk, since it has been prudent about past borrowing and has a relatively low debt burden of around $6bn. In addition, the country is perceived as having a fairly strong industrial economy, although how resilient this will prove amid the changes in Comecon relationships remains to be seen. The country's record means that it can tap the credit market at fairly fine margins, unlike some of its indebted neighbours.

Poland and Hungary face large repayments on their existing debt, which suggests their future borrowing could be constrained; but both are in line to receive World Bank loans and around $1bn from the EIB.

In spite of the two countries' indebtedness, Mr Jim Bliwas, marketing director at Oppenheimer Wolff & Donnelly, a US law firm that specialises in arranging deals in the eastern bloc, believes US firms see them as attractive because of their tradition of entrepreneurism. He points to the private flower export and fur industry that has existed in Poland for the past 10 years.

In the absence of reliable central bank guarantees for some projects in eastern Europe, several pioneering banks are turning towards non-recourse project finance. In addition, countries like Poland and Hungary are *looking for investors rather* than banks, which will take an equity stake in a project.

The projects that have traditionally attracted western investors are those which offer some form of export earnings. But Morgan Grenfell says it is now looking at investment in utilities, which generate domestic earnings with some sort of guarantee from the central bank that these earnings can be exchanged for foreign currency. Although eastern European nations are moving towards convertible currencies, much uncertainty still surrounds their ability to do so.

The uncertainty of an economy in flux is the major drawback to investment in the eastern bloc. Nascent projects and *joint ventures are difficult to* assess in the absence of comprehensible accounts and corporate law. Mr Bliwas points to the sheer weight of change, which can remove a whole negotiating team virtually in mid-sentence. But, in the absence of any precedent, most aspects of a joint venture can be negotiated to the demands of the western investor.

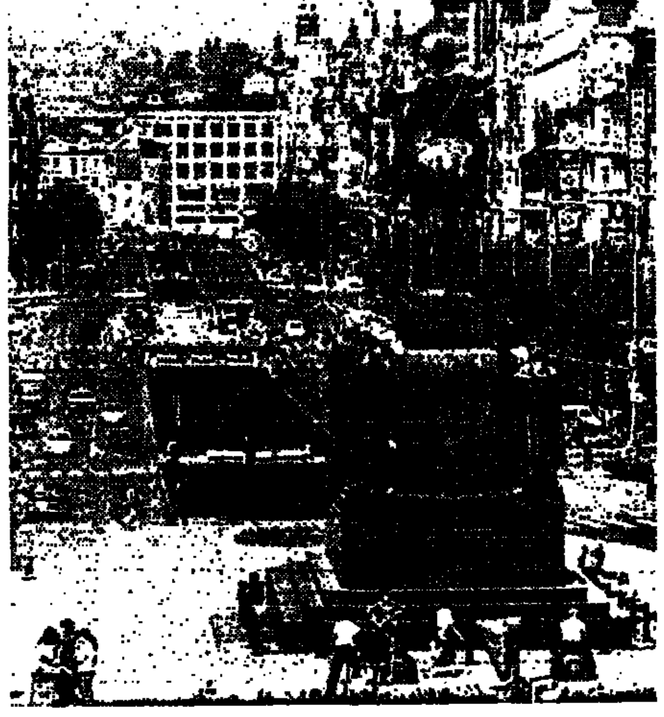
A report by the US Institute of International Finance (IIF) on building market economies in central and Eastern Europe* notes that the availability of bank finance for the region can be favourably influenced by permitting banks to select among a variety of lending options. Banks are looking for trade, leasing and project finance with significant cash-flow and foreign exchange earning potential. "However, the growth of opportunities for such lending is likely to be governed by the pace of economic reform," the report says.

An important development that would increase the scope for bank lending in the eastern bloc is the establishment of local banking operations by *western banks*. This would greatly increase the banks' ability to monitor project development and offer technical support. At the same time, the IIF report continues, a foreign bank presence in the local capital market can increase competition and efficiency.

Of course, East Germany is a special case among the east European nations, given the approach of German unification. But this became the first country in the region to attract a western banking operation when Deutsche Bank agreed to *set up a joint venture with the* East German Deutsche Kreditbank, the former state banking monopoly, in mid-April. The joint venture involves Deutsche Bank acquiring some 100 of the 170 branches of Kreditbank, with several thousand employees, but exact terms have yet to be worked out.

The situation in eastern Europe is currently in some disarray, as most of these countries experience their first democratic elections in decades. Economic reform is a central plank of most parties' *election* platforms but it could be some time before the western banks overcome their caution and agree to help them out.

* *Building Free Market Economies in Central and Eastern Europe: Challenges and Realities (Institute of International Finance, 2000, Pennsylvania Avenue, NW, Washington DC 20006. Tel (202) 857-3600.*



■ **Prague... Many western banks regard Czechoslovakia as the best credit risk, because it has been prudent about past borrowing and has a relatively low debt burden, of around $6bn. In addition, the country is perceived as having a fairly strong industrial economy.**

'Expect parallels with Italy'

MORGAN GRENFELL is building on a 100-year tradition in its current approach to lending in Eastern Europe. In the past five years the UK merchant bank has lent over $3bn to the region and it pioneered loans on a limited recourse basis to the USSR last year.

Profile: MORGAN GRENFELL

The recent acquisition of MG by West Germany's Deutsche Bank has augmented the bank's expertise in the region. But while the two institutions regularly exchange views and swap information about Eastern Europe they share few common clients.

MG's history of deal-making and innovative financing has taken it into different areas from Deutsche's lending activities. In addition, the banks have different geographical focuses with Deutsche concentrating on a close involvement with East Germany.

One area of overlap has seen Morgan hiring a team of 60 world debt traders from Libra Bank to trade loans on the secondary market. It is expected that these traders will have access to the relevant part of Deutsche Bank's loan portfolio.

As lending to Eastern Europe moves away from a dependence on central bank guarantees, Morgan was one of the first banks to lend on a limited recourse basis with its $330m funding for the Assetco project to reconstruct a petrochemicals plant in the Soviet Union last year.

□

"It is very difficult to arrive at a common vocabulary on what finance and investment mean," says Mr John Shakeshaft, senior assistant director for Eastern European business at Morgan Grenfell. One of the most difficult issues to negotiate with an Eastern European partner is the concept of an acceptable economic return on a project, he explains.

In addition, it is hard for the partner to grasp the concept of the level of risk acceptable to an international investor. "You can't just send in the accountants to evaluate the assets of a project because you lack the legal environment to dispose of the assets if something goes wrong."

In developing an approach to Eastern Europe, Mr Shakeshaft stresses the importance of differentiating between countries and regions. These are assessed on their previous performance and record for servicing existing debt.

Mr Shakeshaft believes that the industrial development of Eastern Europe will be similar to the rebuilding of Italy after the second world war. He expects the creation of large, complex companies with a layer of small, family-owned firms with little in between.

Deborah Hargreaves

LEVERAGED FINANCE

A duller place – but safer

THE ATTITUDES of international banks to highly leveraged corporate transactions – those that involve the creation of significant amounts of debt – have altered significantly over the last 12 months.

The reasons are ultimately rooted in the rises in interest rates which have taken place worldwide, stifling demand for credit and business euphoria together. The demise of the junk bond market in the US – culminating in the collapse of its leading proponent, Drexel Burnham Lambert – expressed the retreat from leverage, which has a parallel in the shrinking of banks from leveraged lending.

The well-publicised failure of leveraged buy-outs in both the US and the UK reinforced a caution already in evidence. Bank regulators on both sides of the Atlantic and in Japan began to express concern about the exposure of banks, with US regulators introducing a uniform definition of highly-leveraged transactions so they could at least keep track of them.

There are two main banking consequences of this. The first reflects the impact on their balance sheet of those completed deals which have gone wrong – and there is evidence that, as time went on, leveraged transactions in the US and UK became riskier. The second reflects the impact on current earnings of banks for which arranging and lending in such transactions made up an important part of net income.

Significantly, the collapse of the Japanese stockmarket – also a result of a sharp rise in interest rates – has intensified these trends. Japanese banks were among the most aggressive of leveraged lenders until they began to pull back last year. Now, they are very cautious. Higher interest rates have put their profit margins under pressure, and the 25 per cent drop in stockmarket prices since the start of the year has also raised question marks about their capital. The Japanese banks' significant holdings of shares count towards their capital, but their ability to raise more capital by issuing shares has been significantly restricted by the market collapse.

This is not to suggest that merger-and-acquisition activity will stop. But the numbers of such deals has already fallen considerably, and is likely to remain at significantly lower levels for some time to come.

Banks are still willing to fund acquisitions. The financing underwritten for the buy-out of the European businesses of the Del Monte canned foods group and the $750m of senior debt in the $1.5bn acquisition of Saks Fifth Avenue display this clearly. However, the amount of equity in both these transactions far exceeds that which would have been necessary even a year ago.

In many ways, the turning point for banks was the failure last year by Citicorp to syndicate the senior debt for a buy-out of the airline, UAL. The difficulties being faced by management this year, to arrange financing for a much more conservatively structured deal to buy out the airline, illustrate the aversion to leverage still felt by many banks.

In some banks, concern about leverage has caused the credit decisions to move up the hierarchy, leaving a cautious senior management to decide on whether to reject or accept a lending invitation.

In this way, a few traditional banking virtues reassert themselves. Keeping financings safe and simple is now beneficial. The trend towards transactions banking – where doing a deal is what counts rather than preserving important customer relationships – has probably gone into reverse.

This has left the market for corporate lending a duller place – but probably also a safer one.

Stephen Fidler

Investment banking: the search is on for more fee-based work

Citicorp reflects the climate

AS COMMERCIAL banks push further into investment banking territory, they are discovering that they have little immunity to the industry's present malaise. Tougher competition in the international securities markets is being accompanied by a dramatic fall-off in the level of fee-based corporate finance work.

In the US, commercial banks are chipping away at the Glass-Steagall Act, which has kept them out of the securities business for over 50 years. Last summer, four banks – J.P.Morgan, Chase Manhattan, Bankers Trust and Citicorp – began underwriting corporate debt, although the move is still being contested by the Securities Industry Association.

All four are attempting to diversify away from commercial lending into trading and fee-related work. They have been operating merchant-banking units in London since the 1970s for just this purpose. Yet proof of the prevailing treacherous climate was provided last month by Citicorp, when it revealed a 56 per cent drop in first-quarter net income, due mainly to a squeeze on its corporate and investment banking business.

In London, Citicorp has been plagued by the poor performance of its broking subsidiary, Citicorp Scrimgeour Vickers. On the other hand, it gained handsomely last year from the boom in acquisition funding which went hand-in-hand with a wave of takeovers. Citicorp ranked top among arrangers of syndicated loans, according to Euromoney, ahead of Manufacturers Hanover and Bankers Trust.

The popularity of the leveraged buy-out provided commercial banks with handsome advisory fees as well as funding opportunities. But the abrupt halt to that growth, following the collapse of the $7.2bn UAL buy-out last November, has hurt the banks.

Bankers Trust, which made a speciality of buy-out transactions, ranked fifth among advisers on international bids last year, according to Mergers and Acquisitions International. The bank was an adviser to Hoylake in its bid for BAT Industries, and was also involved in the ill-fated management buy-out of Magnet Group.

Earlier this year, the bank suffered a major blow when Allen Wheat, chairman of Bankers Trust International, defected to Credit Suisse First Boston, taking with him over a dozen staff. Such defections are common in the investment-banking community, and the commercial banks are finding they are no exception.

Even J.P.Morgan, probably the most respected of the US merchant banks in London, has had difficulties in moulding its new investment-banking culture. Two years ago it lost several key executives to rival institutions, although that does not seem to have impaired its performance.

In the Eurobond market, Morgan ranked seventh last year among bookrunners on all issues, according to Euromoney, and was well ahead of its nearest commercial banking rival, Bankers Trust International. It fared especially well in asset-backed securities (bonds secured against credit-card receivables or car loans), ranking third behind Salomon Brothers and Nomura, and ahead of Credit Suisse First Boston.

Nowhere is the search for fee-based earnings outside the securities markets — especially in the field of acquisitions and divestitures — more concentrated than in Europe, where companies are restructuring to take advantage of a single market

Yet, as every banker knows, league-table positions are no guide to profitability. The search for fee-based earnings outside the securities markets, especially in the field of acquisitions and divestitures, is being stepped up. Nowhere is the search more concentrated than in Europe, where companies are restructuring to take advantage of a single market.

The Japanese banks, known until recently for their lending powers rather than their corporate finance expertise, are gradually raising their profile in the European M&A market. The banks are following the trend of Japanese investment away from the US towards strategic acquisitions in Europe.

In the US, the Japanese commercial banks have chosen to establish ties with domestic firms. Sumitomo Bank bought a 12.5 per cent stake in Goldman Sachs four years ago; Industrial Bank of Japan opted to take majority control of the Schroder operation in New York, renaming it Schroder IBJ.

"It would be wrong to think that all the Japanese banks are doing the same thing: each case is different," says Mr Peter Rona, chief executive of Schroder IBJ. "IBJ got involved in investment banking to serve its clients; that is basically the sole purpose."

In Europe, the Japanese banks are especially client-driven. On the one hand, they know that Japanese companies are keen to acquire production units and distribution networks in Europe if they are to remain competitive. On the other, Europeans may, over time, become buyers of assets in Japan as family-owned companies there encounter succession problems and wish to sell.

The Long-Term Credit Bank of Japan – hardly known outside Japan for corporate finance work – is among those stepping up their European M&A activities. Since acting for Sumitomo Rubber Industries in its purchase of Dunlop's tyre-making units five years ago, the bank has advised on a mere handful of deals. Now, according to general manager Yasunori Fuji, it intends to expand by recruiting European nationals.

Commercial banks have one advantage over investment houses in takeover situations: the ability to provide senior debt with tailored maturities. Further, at a time when investor appetite for mezzanine debt, roughly translated as junk bonds, is distinctly poor, the Japanese banks can tap their domestic sources for equity.

But the Japanese securities houses represent formidable competition, especially since a major source of their international revenue – the issue of equity-related debt – has dried up in the wake of Tokyo's stockmarket slide. They will almost certainly redouble their corporate finance efforts to compensate for this loss.

"The Japanese commercial banks may have started ahead of us in M&A but they will fall behind, just as they have in the US and the UK," says Ray Douse, managing director of Daiwa Europe (Corporate Services). "Outside Japan, the banks have not yet established a sufficient reputation in this area."

In the UK, the commercial banks are producing very mixed results from their investment banking subsidiaries. Barclays de Zoete Wedd managed to boost profits by 64 per cent last year to £54m, despite a charge of £32m to cover exposure to the local authority swaps market. Its global equities business was largely responsible for the increase.

County NatWest, the securities unit of National Westminster, managed a £34m trading profit in 1989, but an exceptional item of £50m pushed it into the red to the tune of £16m. The item represented legal costs and compensation payments arising from County NatWest's handling of the Blue Arrow rights issue in 1987.

Midland Group suffered an embarrassing setback when Midland Montagu, its treasury and institutional banking division, misread the trend of UK interest rates last year and suffered a drop in income of over £116m as a result. On the other hand, Midland's merchant bank, Samuel Montagu, lifted profits from £28m to £75m.

Commercial banks in general can draw some comfort from the fact that independent investment houses are finding the going in today's markets equally rough. Most, especially the Japanese, stress that they have a long-term commitment to investment banking which will not be weakened by short-term upheavals.

But others, notably the US banks, may follow the example of Chemical, which withdrew from the Eurobond market altogether last year. Maintaining a commitment sometimes proves more costly than it sounds.

Nigel Adam

Retail banking is likely to become a global business, with...

Stiffer competition on the cards

RETAIL BANKING looks set to cross national frontiers in the 1990s and become a truly global business for the first time in its history.

Banks are still struggling to cope with the aftermath of the deregulation of national retail banking markets in the 1980s. But, just as happened with manufacturing industry two or three decades ago, the long-term survival of large retail banks may increasingly depend on the ability to compete with foreign players.

Not all the upheavals of the 1970s and 1980s have yet settled down. In the US, the "thrifts" – savings and loans associations – suffered losses of $19bn in 1989, and will be lucky if they do not lose a comparable amount this year. About 2,000 institutions, out of 3,000, are reckoned to have good prospects of survival.

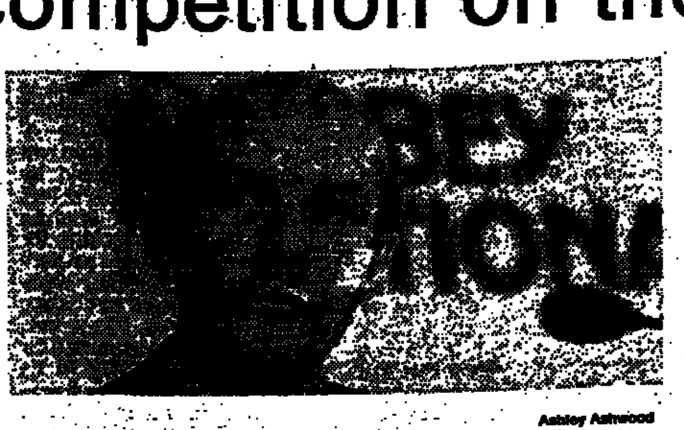
In the UK, building societies are battling for market-share in a high-interest-rate environment which is squeezing their loans business. Last year saw the societies recovering a dominant market share of 75 per cent from new centralised lenders, many of them offshoots of foreign banks. But while several societies pushed up profits by 40 per, most are cautious about prospects this year.

"I think we are going to see several defensive mergers of large building societies in the year ahead," says the chief executive of one of the top five societies.

Another possibility may be the first takeover of a building society by a foreign bank or insurance group. Royal Trust of Canada, Citibank of the US, and National Australia Bank, as well as a number of French and other European institutions, are often named as likely purchasers. The first takeover of a building society could come this summer, and will probably be a test purchase of a relatively small society.

National Australia Bank consolidated its presence in the UK market early in 1990 by buying Yorkshire Bank, previously a jointly-owned subsidiary of three clearing banks, for £1bn.

One of the perspectives that is shaping the thoughts of retail bankers in Europe is the arrival of the Single Market in 1992. No one is quite sure how far it will be possible to create a true single market in retail banking. Proposals for separate Community legislation on mortgage-lending seem to have been shelved, while a European Code of Practice for debit and cash-machine cards has been criticised by consumer groups as unfair.



Ashley Ashwood

Peter Birch: a possible acquisition in the German market

But cross-frontier activity is growing. Hypothekenbank has established a mortgage lending subsidiary in the UK, while Abbey National, a former building society which became a bank with a stockmarket flotation in July 1989, has bought Fico France, a mortgage company in France, in addition to its existing joint ventures in Spain and Italy. Abbey National's chief executive, Mr Peter Birch, says the next step could be an acquisition in the German market.

Nykredit, Denmark's largest mortgage-lender, followed up its entry into the UK market in 1988 by buying Business Mortgage Corporation, a small bank, in 1989. But although new entrants from abroad continue to set up in the UK mortgage market, they are finding the going tough, with most currently offering mortgage interest rates over 16 per cent.

Rapid changes are also under way in the credit-card market. In West Germany, though the stand-off between most of the German banks and Visa International continues, Visa has finally found a way to offer its customers cash-machine facilities through a deal with KKB, the German subsidiary of Citibank.

Mr Detlev Buchal, chief executive of GZS, the German payments system which operates the Eurocard/MasterCard and Eurocheque franchises in Germany, says he is well pleased with a massive programme of expansion, launched in February 1989, to give Eurocard a mass cardholder base in Germany for the first time.

German banks have traditionally offered their customers more or less identical products at standard prices, but a price war for credit-card customers seems to be getting under way, with some banks undercutting the standard market price of DM60 ($35) a year by a third or more.

West Germany has yet to find a way to overcome retailer preference for the Eurocheque system and launch a national debit-card scheme

Germany has yet to find a satisfactory way to overcome retailer preference for the Eurocheque system and launch a national debit-card scheme. In the US, Entree, the joint debit card launched by Visa and MasterCard, became engaged in anti-trust litigation. It now looks as if debit cards – and eftpos (electronic funds transfer at point of sale) – will be much slower to emerge in the US than in Europe.

Elsewhere, things are changing fairly rapidly. Visa International's debit-card branding, Electron, is now available in both Spain and the UK. This is partly a response to the unexpectedly vigorous growth of Switch, the electronic-only debit-card brand, launched in 1988 by National Westminster, Midland, and Royal Bank of Scotland. Switch's commercial viability is still doubted by some banks, but even Barclays and Lloyds – the main advocates in the UK of Visa debit cards – have applied to join Switch, as have most smaller banks and building societies.

Switch is, in fact, well on the way to becoming a national debit-card scheme for the UK, a cheaper off-line substitute for the highly expensive on-line "National EFT-POS" scheme, which was launched by the banks in 1986 and was wound up early this year after costing the banks at least £60m in investment. Some sort of link between Switch and other European debit schemes, including Eurocheque is now being canvassed.

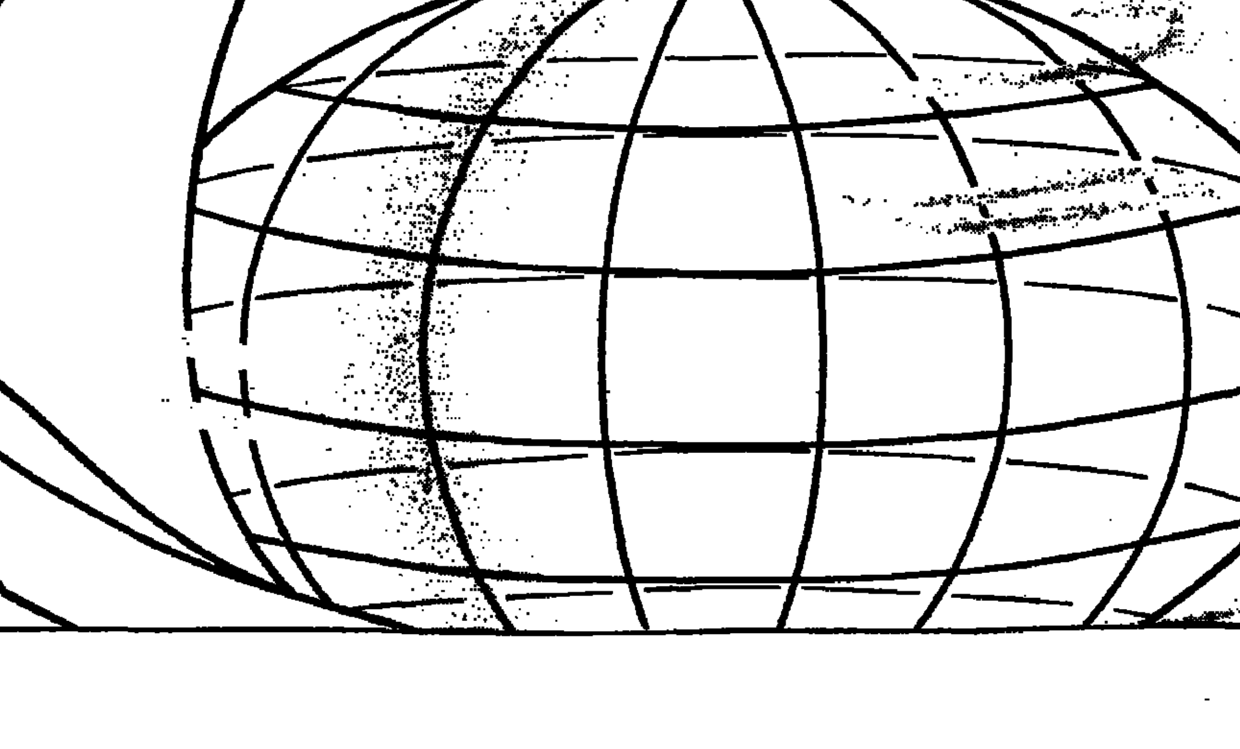
The bad news for the banks is that their credit-card business in Europe and North America is increasingly being challenged by non-banking institutions, especially retailers. Three years ago, Sears Roebuck launched its own Discovercard, which has moved steadily into profitability and will probably move into European markets before long.

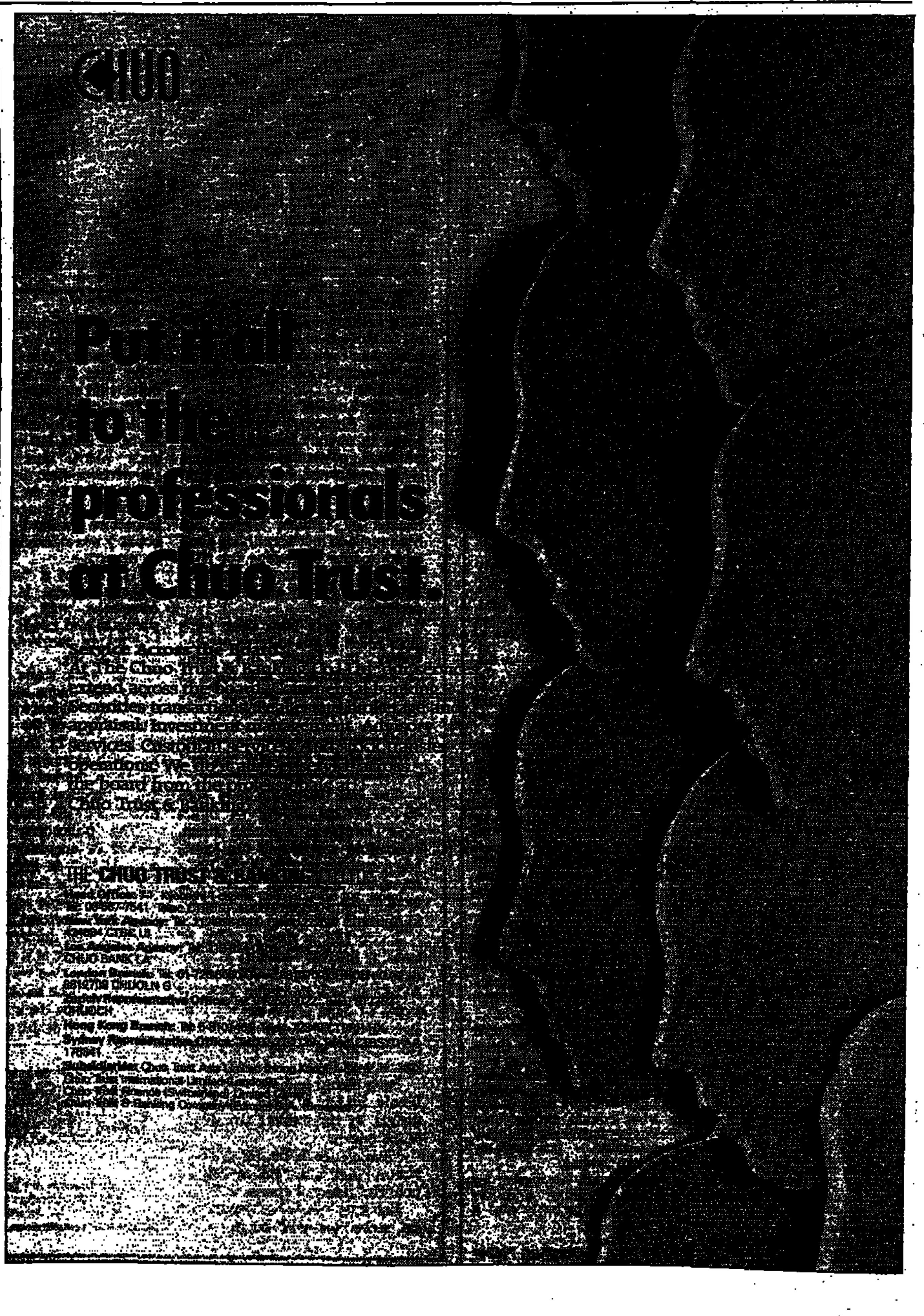
In April 1990, the American credit-card industry was shaken when American Telephone and Telegraph, the telecommunications group, launched the Universal card, which is both a credit card (within the MasterCard or Visa systems) and a telephone calling card. Unlike the bank cards, the Universal card has no annual fee.

Retailers in the UK are also pressing the Government for changes in the charging system in the credit-card industry and Visa International's rules for members. Burtons, the tailoring group which owns a bank, has hinted that it would like to become a member of Visa, but knows it will not be admitted, at least at present.

Finally, US and European banks face the long-term prospect of Japanese competition in the credit-card market. JCB, Japan's largest credit card company, says it will start limited amounts of card-issuing in North America and Europe later this year. Though its customers will be mainly American markets, it looks as if JCB plans to establish itself, along Visa and MasterCard, as a leading international player in the market by the end of the 1990s.

David Barchard





David Lascelles on the response to regulatory developments

Lessons from the B&C crisis

WHEN BRITISH and Commonwealth, the UK financial conglomerate, was plunged into crisis last month, it threatened to provoke a regulator's nightmare.

With no fewer than 40 regulated subsidiaries in half a dozen countries, including three authorised banks, several licensed dealers and brokers, and assorted finance companies, its collapse would have sent tremors far and wide.

Small wonder that the Bank of England, its principal supervisor, was quick to summon all B&C's various regulators to a crisis meeting, and inform the authorities in other countries where it operates. Fortunately, B&C's troubles were confined to Atlantic, its computer leasing arm. But the crisis contained several lessons for the financial regulators.

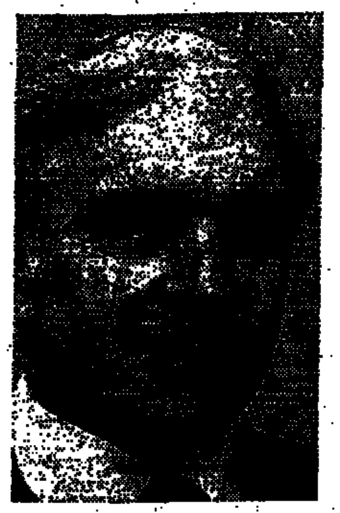
For one thing, it showed the risks that diversified financial conglomerates pose these days, and the need to ensure that the bulkheads protecting the capital in each subsidiary can hold in a storm. For another, it pointed up the importance of co-operation between authorities in different countries.

But one reason why B&C did not cause as much damage as it might is that regulators are now aware of these problems, and have developed the habit of co-operation, particularly in the banking industry.

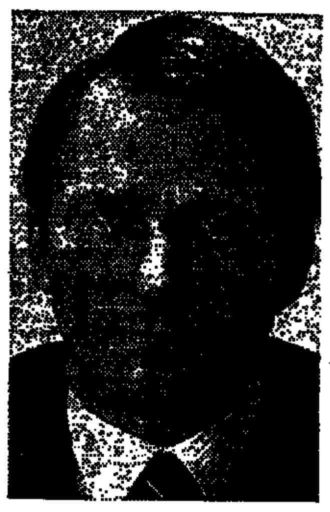
Clearest evidence of this is the Basle Committee of banking supervisors, under its Dutch chairman Mr Huib Muller. After launching its initiative two years ago, to implement common capital standards for all the world's leading banks, the committee is now working on standards for other factors, such as market risk and liquidity, and establishing links with regulators of other industries such as securities.

The capital standards are being phased in over a five-year period extending to March 1993, and have already had a considerable impact on bank balance sheets. Banks have raised an estimated £10bn in new capital, and are mostly now well on the way to meeting the new 8 per cent capital ratio minimum. At the end of 1989, the conspicuous laggards were the state-owned banks of France and Italy.

The recent fall in the Tokyo stock exchange has also weakened the capital ratios of Japanese banks, because they have large industrial holdings whose value has fallen. But it is not yet clear whether this will prevent them meeting the targets on time.



■ Brian Quinn chairs the committee of supervisors set up by the Delors Report



■ Huib Muller chairs the Basle Committee, which called for capital standards

Meanwhile, the new capital standards will put pressure on banks to raise their profit performance. In a recent study, Mr Graham Bishop, an analyst at Salomon Brothers, predicted that banks would have to sell off prime loan assets to realise profits; this in turn would give a big boost to the loan securitisation market.

Cross-border harmonisation of banking rules is most advanced in the European Community, where the directives creating a single banking market for 1992 are being completed. The basic directive creates the concept of the "passport", which will enable any bank authorised by one member state to operate in all the others without needing further authority. This is being backed up by several technical directives covering solvency, large exposures and so on.

The capital standards are being phased in over a five-year period extending to March 1993, and have already had a considerable impact on bank balance sheets

A committee of banking supervisors was also established by last year's Delors Report on financial unification, to consider the issues raised for the banking system by the prospect of closer monetary union. Chaired by Mr Brian Quinn, the executive director of supervision at the Bank of England, it has begun addressing such questions as whether banking supervision should be conducted by the central bank or by some separate authority.

One of the pressing issues facing banking authorities is the growing problem of drug-money laundering. Last year, the Basle Committee produced a code of conduct which imposes a strong moral obligation on banks to check out their customers more carefully, and to keep an eye open for suspicious money movements. Some countries, like the UK, followed this up with warnings that banks which did not co-operate could risk losing their licences.

But this crackdown will be of limited value so long as banking secrecy can be used to shield the criminal, and channels are not opened up for international co-operation.

The recent report of the Group of Seven task-force aims to overcome these obstacles by recommending ratification of the Vienna Convention, which criminalises drug-money laundering, and says banking secrecy cannot interfere with international criminal investigations. In calling for "tough and rapid actions", the task-force estimated that drug criminals try to launder $85bn a year through the world banking system.

The major question for the near future is the extent to which regulatory reform will progress in the US. Following the recent crises in the savings-and-loan industry and on Wall Street, the need for a fresh approach has become clear. But will it lead to tougher or more tolerant regulation?

The White House recently indicated that it was reviewing the whole regulatory structure of the US banking system, including fundamental issues like the traditional separation of the banking and securities industry.

Mr Alan Greenspan, the chairman of the Federal Reserve is also in favour of thoroughgoing reform. Even the securities industry has now dropped its opposition to reform of the Glass-Steagall Act which keeps banks out of its markets. The question, though, is whether Congress believes the $200bn bail-out of the S&L business is an appropriate context in which to grant banks even greater powers.

A similar review process is at work in Japan, the other major country where compartmentalisation of financial services survives.

Convergence of banking and securities is certainly the order of the day in Europe, where the EC structure has been designed specifically to accommodate the "universal banking" principle. This gives a powerful additional argument to US banks which are seeking change, though so far the only progress they have made has been through administrative measures introduced by the Fed.

Mr Gerry Corrigan, the president of the New York Fed, told US bankers in January: "I would go so far as to say that the structural flaws in the US banking and financial system have actually got more serious, if only because we tinker while others progress."

Sir John Quinton: 'a key determinant of success or failure'

TECHNOLOGY

'1% of turnover is spent on IT'

THE WORLD'S banks and financial institutions have an insatiable appetite for computer power. Their demand for "mips" (millions of instructions processed per second, a measure of raw computing power) continues to increase at more than 40 per cent a year.

Only dramatic falls in the price of computer hardware produced by the microcomputer revolution is keeping a cap on the amounts financial services companies have to invest in computers.

Even so, according to figures from the management consultancies Price Waterhouse and Peat Marwick, the finance industry is spending close to 1 per cent of its turnover on its information technology (IT) budget, and the figure is growing by between 14 per cent and 25 per cent annually.

Figures from the US, provided by the Business Communications Company, suggest that each year banks are currently buying computer equipment worth a total of about $2.7bn. By 1994, according to Market Intelligence Research Company, the worldwide spend on computers in banking will be more than $14bn.

Computer technology has become, therefore, in a few years, the principal force driving change in the banking industry. Sir John Quinton, chairman of Barclays Bank in the UK, giving the presidential address to the Chartered Institute of Bankers said: "The impact of IT upon banking is so radical that it will be a key determinant of success or failure in the industry; a key determinant of whether 'banks', as a recognisable grouping, continue to exist; and a key determinant of the differentiation between competitors in financial services."

He warned that banks that could neither become the lowest-cost producer of services, nor differentiate themselves sufficiently from the competition by using IT, might go out of business.

Banks' concerns about their computer operations are of two kinds: first, that their central systems are adequate, efficient and secure; and second, that they have the necessary computing skills to build leading edge applications.

Central operations – deposit processing, loan and credit processing, administration and so on – are generally based on mainframe computers, usually, but not always, manufactured by International Busines Machines (IBM), the world's largest computer manufacturer.

The banks' continuous demands for more computing power are helping to sustain IBM's mainframe sales at more than 11 per cent a year. The largest IBM machines in use now come from its 3090 family, now close to the end of its life. Within two years, IBM is expected to announce a new hardware family, the "Summit" series, which will offer significantly greater price performance.

Business Communications Company points out, however, that banks seeking competitive advantage will try harnessing the power of supercomputers to their applications: "Just as the 1980s was the era of the personal computer," it says, "the 1990s will be the era of the supercomputer."

It goes on to point out: "Greater reliance on supercomputing will not, however, lessen the need the banks will have for large and mid-range mainframes. Some 6,000 large mainframes and 4,500 mid-range computers with processing speeds of between 50m and 1,500m floating-point operations a second (megaflops, a measure of supercomputing power) will be in use in the US by 1994."

What is all this power needed for? First, to handle the growth in banking business and provide the resource for new electronic methods of banking communications. Cash management, for example, has become an electronic business driven by the concepts of electronic data interchange (EDI).

EDI is simply the electronic interchange of business information between trading partners using telecommunications links and computer systems. The international banks' telecommunications network, Swift, now in the final phase of its evolution into the more powerful and flexible Swift II system, is an early banking example of EDI.

With the development of networks that will connect both banks branches and banks to other banks, EDI will become increasingly important and lead to new demands for the establishment of standard methods of communicating business information.

An important element in Swift's success has been its clearly-defined message formats, which set the tone for the industry. Expect to see similar developments in, for example, securities-processing as banks concerns rise over capital market, credit, currency-processing and sovereign risk.

The use of computers and data communications systems carries its own risks. Security has become an important issue with enlightened bankers, after a series of incidents in which machine failures have left institutions dangerously exposed or criminals have succeeded in breaking into financial data communications systems.

"Fault tolerance", which implies a computer that continues to operate despite failure of its key components, is now essential for many banking applications. The market leader is Tandem, but the machines of its closest rival, Stratus, are badged and sold by IBM and by Olivetti.

Digital Equipment, whose superminicomputers are widely used by banks, was forced earlier this year to develop its own version of a fault tolerant computer.

Now Storage Technology, a US manufacturer of IBM-compatible memory systems, is taking the fault-tolerant concept a stage further with the development of a high-capacity disk which it guarantees will never lose its users' data.

All the major manufacturers, however, are becoming excited about a new slant on an old technology – image-processing. Just as EDI offers one approach to the "paperless office", so image-processing is promising to cut costs to improve productivity in any areas of banking.

IBM, Unisys, Wang and a host of smaller companies have all developed image-processing systems, based on digital scanners and optical disks of the "worm" (write once, read many times)" variety. The availability of moderately-priced optical disk-drives is the key to the new systems. Unisys, for example, has developed a system for processing cheques at up to 1,800 front-and-back images every minute.

Images of doubtful documents can be transmitted electronically to bank official for verification or correction.

All of these applications of computer technology are heavy on processing power; others, such as the use of expert systems to enable bank officials to make better informed decisions, no less so. Looking ahead, it may not be long before the branch computer – at present, a mini or small mainframe – is replaced by a supercomputer.

Alan Cane

Country reports start here

■ On these two pages and those that follow, FT writers report from the world's principal banking centres:

Real estate causes most anxiety

THERE IS little mystery these days as to what constitutes the biggest threat to US bank profitability in 1990. It is called real estate.

Just as America's senior commercial bankers thought they had put their most nightmarish problem of the 1980s behind them – Third World sovereign debt – the size of non-performing domestic real estate loans has begun to increase almost geometrically.

THE US

The issue of developing-country debt, more than seven years after the outbreak of the Mexican debt crisis, has been tackled by US banks in recent months through a series of drastically increased provisions. Earnings were hit hard by these provisions last year, and even a blue-chip star such as J.P.Morgan was pushed into a big loss as a result.

Now, however, it is clear that there will be little time for bank executives to breathe a sigh of relief. A whole host of new problems, of which real estate is only the largest, are cluttering the earnings horizon.

Mr James McDermott, an analyst at Keefe, Bruyette & Woods in New York, says that banks are facing a generally harsher environment this year because of the difficulty of generating revenues. The slowdown in corporate lending and the flow of deals that have created lending opportunities continues to worry bankers.

The changed circumstances in Wall Street, meanwhile, means that lending tied to high leveraged takeover deals is sharply lower, while the tendency of large corporations to raise non-bank funds when needed only compounds the state of affairs.

For a while, commercial money-centre banks thought they would not be affected as much as thrifts by the slump in the commercial and residential real estate sectors – and there are indeed important distinctions between the woes of the thrifts and commercial banks. For one thing, the thrift industry has been hit by mismanagement, poor regulation and widespread fraud as much as by real estate. The chaotic state of the savings and loan industry and the estimates of *$400bn of future* bail-out costs is clearly an enormous financial albatross for the US economy, but then so is the lacklustre state of commercial banking.

The worsening of real-estate problems among commercial banks was underscored at the start of this year by the crippling size of non-performing loans at the Boston-based Bank of New England. The Fed and other authorities moved in and ordered the Bank of New England to co-operate in the sale of $6bn of assets, major restructuring, management changes and a slashing of the bank's workforce. Then, following the New England debacle, Fleet/Norstar Financial Group of Providence, Rhode Island and other regional banks disclosed serious real estate loan problems.

Regional banks have performed better than the money-centre banks, but over-expansion, and the weakness of several regional economies, suggests this trend will change

New England is not the only region of the country to be hit by the real-estate crisis. Arizona has been especially hard hit, and fears are growing in New York, California and parts of the south-west.

The big money-centre banks, despite having more balanced and diversified businesses, are now preparing to deal with the real-estate crisis. Mr John Reed, chairman of Citicorp – America's biggest bank – recently said that non-performing real estate loans would continue to rise in 1990. His warnings have been repeated by other top bankers around the country.

The commercial banks have reacted to the real-estate crisis and the general drop-off in corporate lending by trying to lay greater stress on fee-earning divisions such as retail banking. Citicorp has led the way in retail banking, but Chase Manhattan and Bank of America are also devoting significant capital and human resources to growing their financial service and individual customer businesses. It is not certain, however, that even a profitable retail banking business will sufficiently offset other problems.

Nor can the commercial banks rely any more on their past strategy of nurturing their investment banking, capital markets and merger-related activities. The collapse of Drexel Burnham Lambert and the problems at Shearson Lehman and First Boston are only the most recently well-publicised examples of Wall Street's severe contraction. And, given the downgrading of many bank ratings because of the poor quality of assets, under-capitalisation or loan losses some blue chip corporations are finding that their own ratings are often higher than those of their bank lenders.

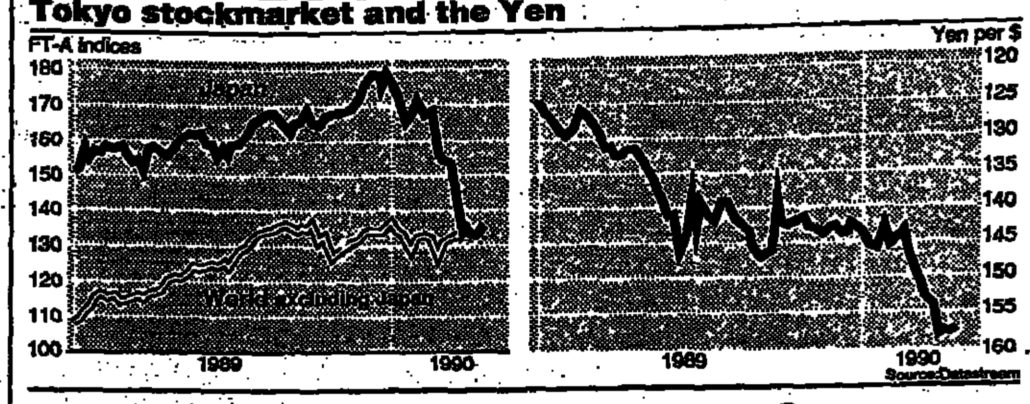
In these circumstances, foreign banks appear much stronger than most of their US competitors in serving multinational corporate clients. The capital-rich Japanese banks and European institutions, such as Deutsche Bank and Barclays Bank, are in many ways better placed to serve US companies seeking to expand in a global market.

The London-based IBCA bank-rating service has warned that regional US banks could be the next source of concern. Until now, the regionals have performed much better than the money-centre banks, but over-expansion by the regionals and the weakness of several regional economies suggests this trend will now change. IBCA said the inherent weaknesses of the US banking system – caused by its regionalisation and the pressure on management to achieve short-term financial performance – has "not served the country well".

The US banking system thus remains weaker than most of the major industrialised banking systems and, at least in the near term, seems likely to remain so.

Alan Friedman

Tokyo stockmarket and the Yen



Splashed by the plunge

THE RECENT sharp fall in the Tokyo stockmarket has forced Japanese banks to carry out urgent reviews of their corporate plans.

After several years of rapid expansion in domestic and foreign markets, the banks could face a period in which they grow more slowly.

The plunge in Japanese equities and bonds since the beginning of the year, combined with the sharp drop in the international value of the yen is making it more difficult for banks to comply with tough new international rules on balance-sheet strength. At the same time, rising interest rates are already eating into trading profits, while a weak stockmarket will make it more difficult in future to boost operating profits by selling securities.

Meanwhile, there is concern that land prices may be dragged down by the decline in equities, resulting possibly in bankruptcies among over-borrowed individuals and companies. Although large banks will almost certainly be able to cope, some smaller institutions, including regional banks and leasing companies, may face difficulties.

There is anecdotal evidence about land prices starting to fall. The index of golf-club membership prices started falling sharply in March, at the height of the stockmarket crisis.

Japanese bankers like to think that Japanese land prices do not suffer sustained falls, because Japan is small and crowded country. They will not have to wait long to see if this argument holds true in the exceptional conditions of 1990.

For large banks, the chief concern is meeting the new standards on capital adequacy established by the Bank for International Settlements, which come into effect in March 1993.

When the BIS rules were first made known in 1987, banks were very cautious. In practice, they have continued to expand their loan books as fast as before, especially overseas.

Under the BIS rules, by the end of March 1993, the ratio of capital to assets has to be 8 per cent or more. If the ratio is low, banks can either cut their assets or increase their capital, or both. Since 1987, Japanese banks have concentrated on taking advantage of the strong stockmarket to raise a huge

JAPAN

total of Y12,500bn ($79.3bn) in new capital. As a result, while US and European banks slowed down, Japanese banks continued to expand their loan books – by 15-20 per cent a year, *with increases of 30 per cent* and more in overseas markets. Japanese banks often bought assets which their foreign rivals were forced to sell.

The stockmarket slump means that banks can no longer issue paper so easily. It may also undermine the value of Japanese banks' existing capital. Japanese banks are allowed to count as capital 45 per cent of the value of the unrealised gains on their huge securities holdings. With the stockmarket down, these gains have shrunk.

The banks will doubtless try to tap the stockmarket as soon as they can, to make good the shortfall. Some are also pressing the Ministry of Finance to allow them to widen the range of instruments they can issue to include subordinated debt, which is extensively used by western banks. In Japan, the right to issue debentures is restricted to long-term credit banks. City (commercial) banks want the rules changed. But they fear that long-term credit banks may demand other privileges in return. No solution is in sight.

If banks cannot raise new capital, the only answer will be to curb asset growth, particularly in overseas markets, where the value of loans is exposed to the vagaries of currency movements.

The extent of any slowdown will vary from bank to bank. The best-capitalised banks include Sumitomo Bank, which raised Y320bn as recently as January. Sanwa Bank, which pulled in Y350bn in new capital last October, is also well placed as is Mitsubishi Bank, which *had the highest capital ratio* last year when the leading banks posted interim figures for the six months to the end of September. Weaker banks include the newly-formed Mitsui Taiyo Kobe Bank and the Bank of Tokyo.

Banks were hoping to boost capital by improving profitability. But the rise in interest rates, which helped to trigger the stockmarket crisis, has trimmed operating profits severely. At the same time, the weakness of the stockmarket makes it harder to boost operating profits with profits on selling securities. These can be huge – *for the six months to* the end of September, the non-operating profits of Mitsui Bank at Y54bn was over three times bigger than its operating profit of Y15.4bn. Even for Sumitomo, the most profitable bank, *non-operating profits* were 24 per cent of total profit.

Before the stockmarket started plunging and interest rates posted their latest increases, pre-tax profits for the year to the end of March were expected to be well down – by 15 per cent or so. Now forecast declines run up to 25 per cent, with little hope of a recovery in 1990-91.

Stefan Wagstyl

Networking without frontiers

EC BANKS are not the only ones eyeing 1992. Citibank, the largest US bank, is trying to develop a *Continent-wide* consumer banking business by drawing on its considerable expertise in this area.

At the moment Citibank has a retail presence in 11 countries in Europe. It has 700 branches employing 11,300 people with 8m accounts and $14bn in assets. But the key *statistic as far as it is concerned* is that it currently serves 3 per cent of European households. It aims to double that figure in the years ahead, says *Mr Victor Menezes*, the group executive who runs the operation out of Brussels.

Profile: CITIBANK in Europe

Mr Menezes believes that the changes in Europe offer good opportunities for outside banks to expand into traditionally entrenched national markets. Cartels are breaking down, regulations are being lifted, and new technology makes it much easier to reach new customers. Most European banks are also more pre-*occupied with defending their* home turf than expanding into *other* countries.

"We see all of this happening quite rapidly, and in some respects regardless of 1992," he says.

Citibank's aim is not to be a dominant player on the European scene. But it has a scheme to build a series of local banks into a pan-European network which a customer can deal with regardless of time, country or language.

Aside from conventional banking services like loans and deposits, Citibank aims to introduce a Europe-wide credit card, and *sell diversified* savings products such as life insurance. (It owns insurance companies in several European countries).

The bulk of Citibank's European retail business is currently in three countries: Germany, where it has owned KKB since 1974, and Italy and Spain where it bought up troubled banks in the 1980s. Mr Menezes says that networks need to be added in France and *the UK, though opportunities* to buy the sort of banks he wants – modest-sized with a strong orientation to the personal market – are limited.

Much of the impetus for Citibank's plans comes from its *traditional strength in the* retail banking market in the US and in other parts of the world. It reckons it has the servicing and marketing *skills*, as well as the technology to do it. For example, it is currently installing into KKB in Germany the cash machines which it manufactures itself for its US branches.

Mr Menezes uses the expression *"success transfer"* to describe the process. He thinks Citibank has a good starting base, and the advantage of being country-neutral in image terms. But he will also have to overcome some of the *scepticism that exists* in Europe about Citibank's plans following several false starts in the past.

At the moment, the operation is profitable "but not as much as we would like it to be" says *Mr Menezes*, because of the drag of high development costs. He declines to exact give figures but says his operation accounts for over half of Citibank's earnings from the Europe, Middle East and Africa region.

Victor Menezes

David Lascelles

High interest rates take their toll

WHEN NOT one but two clearing banks make public warnings about the harm that government policy is doing to their business, times must indeed be hard.

Sir Kit McMahon, the chairman of Midland, rattled the markets last month when he proclaimed that profits were sharply down because high interest rates were squeezing margins and choking off loan demand. A few days later, Barclays, the biggest clearer, uttered a similar cry of pain, though it stressed that trading was "satisfactory".

THE UK

These statements both followed a year in which all the clearing banks saw their profits plunge because of another heavy round of provisions against Third World debts. Small surprise therefore that Lord Alexander, the new chairman of NatWest, summed up the current UK banking environment with these words: "Highly competitive and difficult economic conditions." His own bank's 1989 profits plunged by no less than £1bn to £400m.

Normally, these pressures would be the familiar symptoms of a declining economic cycle. But this time they are happening against a background of big changes in the traditional UK banking market as well. Last year saw a major eruption of competition: all the large clearers started paying interest on current accounts as they battled for place in the high street. This move cost NatWest alone £100m.

Thus the banks entered 1990 facing a squeeze from rising costs and slacker growth, though domestic loan demand has remained more buoyant than people expected – and the Government would like. Among the questions for this year will be the fate of vulnerable sectors of the credit market, such as property lending and highly leveraged deals. Although none of the big banks is dangerously exposed to these markets, they all stand to make some losses. IBCA, the London bank credit rating agency, estimates that the clearers could lose £750m on property over the next two years, assuming that 5 per cent of their loans go bad.

The more stringent climate is also likely to discourage further conversions by building societies into banks. Last year saw Abbey National take the opening plunge, and though its first results as a bank were good, thanks to its Third World debt-free loan portfolio, its heavy dependence on the depressed housing finance market could affect its results in 1990.

Among the questions for this year will be the fate of vulnerable sectors of the credit market, such as property lending and highly leveraged deals

The UK banking market remains, however, one of the most attractive in Europe, thanks to its openness and its relatively high profitability. This was highlighted by the lively bidding for the Yorkshire Bank, the regional bank which was put up for sale by its four clearer owners. The winner, in January, was National Australia Bank with a record price for a UK bank sale of just under £1bn, or three times Yorkshire's net asset value.

The bid topped another major acquisition just a few weeks earlier, the £950m purchase by Deutsche Bank of Morgan Grenfell, the merchant bank. That deal appeared to typify the cross-border alliances that are expected to accompany the 1992 single market, but of which there have so far been few examples.

This year is also likely to bring another major cross-border deal: the consummation of the three-year-old courtship between the Midland Bank and the Hongkong and Shanghai Bank. Although both banks are playing their cards close to their chests, it is expected that they will form a joint holding company as a way of merging their businesses but retaining their separate identities.

Generally, though, UK banks remain highly cautious about their overseas activities, preferring to concentrate on the more familiar home market. Insofar as 1992 is concerned, they are watching for opportunities but have taken few. The Royal Bank of Scotland's two-year-old link up with Banco Santander of Spain remains the only specific 1992 liaison, though both NatWest and Midland have enlarged their interests in Continental merchant banks. Barclays says it would like to enlarge its branch presence in Europe when the opportunity arises.

If times are harder for the clearing banks, they have improved for the merchant banks. After being battered by the securities activities which they acquired at the time of the Big Bang in 1986, the merchants are in better shape, with profits rising. "There's been a very dramatic turnaround," says Mr Jonathan Agnew, the chief executive of Kleinwort Benson, whose profits more than quadrupled. This is partly because the merchant banks are finally learning how to run profitable securities operations, partly because of the large fees they are earning from the high rate of merger and acquisitions in the UK and abroad.

These improvements have underlined the traditional resilience of the independent UK merchant bank – a breed which many thought would be flattened in the headlong rush of the big financial conglomerates. Indeed Barings, the oldest UK merchant bank, felt sufficiently confident this year to publish its full results for the first time in its 228-year history. These showed that 1989 pre-tax profits more than doubled to £66m.

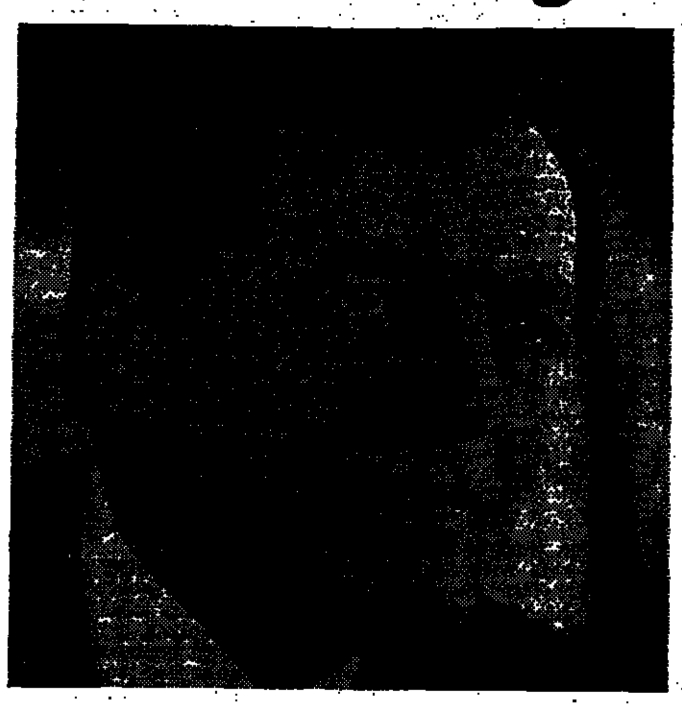
However, the changes of the last few years have now clearly divided the merchants into those with significant securities operations, such as Warburg, Kleinwort and Barings, and those whose profits come mainly from advisory and other fee-earning business, like Morgan Grenfell, Lazards, Rothschilds, Schroders and Hambros. Contrary to earlier predictions that houses with securities operations would come out on top because they could offer a wider service, all seem to be doing equally well in their chosen ways.

David Lascelles

COMPARISON OF 1989 RESULTS OF UK BANKS

	BARCLAYS		NATWEST		LLOYDS		MIDLAND		ABBEY NAT.	
	1989 £m	% chng.	1989 £m	% chng.	1989 £m	% chng.	1989 £m	% chng.	1989 £m	% chng.
Net interest income	3,420	15	3,501	12	2,205	14	1,850	7	766	21
Other income	2,127	19	1,854	21	1,417	28	1,332	17	174	32
Costs	3,550	13	3,567	15	2,301	17	2,303	14	425	26
Charge for bad debts	414	42	445	105	445	190	307	53	14	8
Profit before tax and exceptional provisions	1,675	20	1,444	3	1,048	4	616	-11	501	-
Exceptional provisions for for country risks	983	-	1,040	-	1,763	-	877	-	-	-
Pre-tax profit	692	-50	404	-71	(715)	-175	(261)	-138	501	21
Profit/ (loss) after tax	477	-47	243	-74	(499)	-181	(204)	-149	323	19
Retained profits	144	-77	(65)	-109	(749)	-257	(359)	-226	-	-
Cost/income ratio		64.0		66.6		63.5		72.4		45.2
Total assets £bn	127.8	22	116.2	18	57.5	11	62.5	12	37.2	18
Market capitalisation £m	6,199	-	5,369	-	3,584	-	2,820	-	2,400	-
Shareholders funds £m	8,673	-	6,079	-	2,767	-	2,685	-	2,898	-

A daunting task in the east



■ Hilmar Kopper, chief executive of Deutsche Bank, West Germany's largest bank. As bankers looked to the new challenge in the east, he spoke of his 'vision' of 250 branches and more than 4,000 employees, and later announced a joint venture, with the former East German state banking monopoly

WEST GERMAN bankers have been eagerly looking in the records, and firmly linking the next commercial challenge of expansion into East Germany with past roots in that domain.

Dresdner Bank made much of its return home in January, and Commerzbank's perusal of its own records has conveniently revealed that, before the war, it commanded the most extensive network of branches in what is now East German territory.

Meanwhile, Mr Hilmar Kopper, chief executive of Deutsche Bank, West Germany's largest bank, spoke of his "vision" of 250 branches and over 4,000 employees, and later announced a joint venture with the former state banking monopoly. This brings him at a stroke closer to this goal than some of his competitors would like, and proves the bank has not lost momentum since the loss of Mr Alfred Herrhausen, murdered last November.

The task in East Germany is daunting. Western institutions will be resurrecting a system virtually from scratch. Moreover, there will be little prospect for an independent East German banking system. Reforms introduced by the old regime before the elections may have split the monolithic state bank into a new Bundesbank look-alike on the one hand, and Deutsche Kreditbank on the other, representing an amalgam of the old so-called commercial banking sector. But, just as the new Staatsbank will be absorbed into the Bundesbank come currency union, so Deutsche Kreditbank is already effectively being dismembered.

WEST GERMANY

For years, western practitioners will be furnishing the most basic of banking services, predominantly in the retail sector. Bankers already established in an advisory capacity point to the desperate lack of knowledge. As well as launching a plethora of seminars, explaining to everyone from journalists to company chairmen, the workings of the market economy, several institutions are gearing up training programmes for prospective employees. Deutsche Bank, for instance, has 100 employees of the Staatsbank at its headquarters in Frankfurt, and this project will be expanded.

Nor are activities restricted to the "big three" commercial banks. In Bavaria, Bayerische Vereinsbank intends to develop regional strengths across the border, and Bayerische Hypotheken- und Wechselbank is even proposing branches countrywide. Meanwhile, in the public sector, Westdeutsche Landesbank will be making the most of its region's strong trade ties with the East. DG Bank, the umbrella institution for the co-operative banking system, will preside over an extension of that network; and the savings banks, which are presently not allowed to operate outside local confines, are lending technical assistance to their rudimentary counterparts in the East.

As to the cost, most institutions have been remarkably quiet. Commerzbank put a figure of DM50m on its initial operations, and Dresdner said it would be paying about DM100m for the first stages. Deutsche, by contrast, has not specified how its involvement in the Kreditbank joint venture will be structured.

Meanwhile, recent results for the top five listed banks has demonstrated the basic financial strength of the sector, despite the unfriendly interest rate environment. Deutsche Bank extended its lead over the rest of the pack, announcing record total operating profits, up 23 per cent at group level. Dresdner reported a 20 per cent increase, while Commerzbank's overall result was unchanged. Deutsche's numbers are also of higher quality than its competitors', because it deducts the year-end write-downs on the securities portfolios, which the others do not.

While the habit of December figure releases detailing the first 10 months of the year leaves little room for surprises at the end of March, Dresdner and particularly Commerzbank came on with a spurt in the final two months of 1989.

Interest-rate uncertainty dogs the 1990 picture. But increased turnover on the West German stockmarket will boost commission income

Meanwhile, Deutsche's conservative interest-rate positioning served it well in a rising rate environment throughout the year. The bank managed both a slight improvement in its average interest rate margins, and very minimal write-downs on the bond portfolios. That contrasts sharply with Commerzbank, where trading profits fell, so that, despite an 11 per cent increase in partial operating profits, group profits remained static.

Bond write-downs at parent level within Commerzbank amounted to almost DM300m at the end of December, compared with around DM70m for Deutsche. Commerzbank also suffered a further erosion of its interest margins, which fell again to 2.02 per cent from 2.15 per cent.

Costs continued to edge up at several institutions, notably the Bavarian banks and Commerzbank. Also, Deutsche's overseas expansion is not coming cheap – a rise of 8.4 per cent in costs for the group – but its earnings there, both in terms of interest and commission income, are growing faster than at parent level, in marked contrast to both Dresdner and Commerzbank.

As for 1990, continuing interest rate uncertainties dog the picture, even though the collapse of the domestic bond market has had less impact than was feared at the time. However, the massive increase in turnover of the West German stockmarket will provide a substantial boost to commission income, and several banks are earning very well on the derivatives product side.

International growth will be watched with interest – how for instance Deutsche copes with the ticklish task of integrating the British merchant bank Morgan Grenfell into its empire, and what further developments the Dresdner/Banque Nationale de Paris association yields.

One of the few nasty tastes left for this year will be the DG Bank affair, which could still force the resignation of its chairman Mr Helmut Guthardt. The row between DG and a number of French banks, over a series of outstanding bond transactions, severely dented the credibility of the West German bank among international dealers when it initially refused to stand by oral commitments given by one of its traders, since fired. One of two vice chairmen has already resigned.

Whatever the outcome – investigations by both the federal police and the banking authorities are under way – Mr Guthardt is not credited with having handled the affair well, and, given problems in a number of other areas, further top management changes may be required to put the bank, which is now Germany's fourth largest financial institution, back on its feet.

Katharine Campbell

Networks may widen

BUOYED BY a wave of rising profitability, Italy's banks closed 1989 in a positive mood.

With the economy pushing ahead faster than those of most of its European neighbours, the country's financial institutions benefited from lively credit demand and margins that are still the envy of much of Europe.

Even if some of the extraordinarily large rises in total assets last year were attributable to the effects of industrial

ITALY

action in 1988, which distorted the 1988 year-end figures, the health of the credit market in 1989 was hard to miss.

Despite the continuing problem of attracting retail deposits, which tend to gravitate towards higher-paying and more generously taxed government debt instruments, the banks look set to thrive in 1990. Indeed, the beginning of the new decade may mark the point at which Italy's banks finally start to overcome the two underlying problems that have beset them so noticeably by comparison with their European counterparts.

■ At the end of March, the Bank of Italy removed the remaining restrictions to branching. As a result, banks can now go ahead and open new outlets at will, provided there is no objection from Rome.

The new arrangement marks a sea change from the traditional system whereby requests for new branches were batched together and considered by the central bank every few years.

Although the Bank of Italy had gradually been loosening the rules, the former practice, along with the desire to keep a firm grip on banks' geographic growth, is the main culprit behind the current patchwork nature of Italian banking in which there are too many banks and not enough branches. For although Italy has some 1,200 banks and 13,000-odd branches, there are just 2.4 branches per 1,000 inhabitants, against an average of 5.2 branches per 1,000 throughout the European Community.

While there will not be a surge in new branches overnight, all the big banks are planning to increase their networks substantially. Banca Commerciale Italiana (BCI), Credito Italiano and Istituto Bancario San Paolo di Torino (which currently has the biggest branch network if all its subsidiaries are included) are all talking in terms of opening a further 150-200 branches each in the next three or four years.

■ The lower house of the Italian parliament passed legislation opening the way for the six "public law banks" – which include San Paolo and Monte dei Paschi di Siena – and for the country's savings banks, to change their status to that of joint-stock companies.

Though there is no suggestion of full-scale privatisation, as private capital will be limited to 49 per cent, except in special circumstances, the law, which should be operative by the end of the year, should enable the banks concerned to raise trillions of lire on the bourse.

Such an inflow will allow them to address two urgent priorities. It will guarantee them the ability to keep up lending in line with demand, without the risk that capital ratios will slip below the Bank of Italy's guidelines. And the arrival of new funds could help to trigger a new and badly needed round of rationalisation at home, while opening the door to more takeovers abroad.

Only relatively recently has BCI, traditionally the most international of Italian banks, been looking to establish a network in neighbouring European countries. Likewise, San Paolo has taken many domestic bankers by surprise by the speed and scope of its recent international alliances.

By contrast, most of Italy's other big banks are still at the starting-post. Banca Nazionale del Lavoro (BNL), the country's biggest financial institution and majority-owned by the Italian Treasury, is still digesting the repercussions of last year's Iraqi letters-of-credit scandal.

Meanwhile, Credito Italiano appears, at least temporarily, becalmed, after the thwarting of its attempt to gain a hold at Banca Nazionale dell'Agricoltura, while Monte dei Paschi's top management, swayed no doubt by its local political masters, has said it does not want to change into a joint-stock company at all.

However, the venerable Sienese bank has already indicated what may be a trend in Italian banking, by using small stakes in subsidiaries to form links with foreign banks. Following its sale of a 5 per cent share in its Credito Commerciale subsidiary to Taiyo Kobe, of Japan, the bank in late March swapped a further 5 per cent with Germany's Bayerische Landesbank in return for a 10 per cent slice of Bankhaus Aufhäuser, the Munich-based private bank.

A similar strategy, albeit on an appreciably bigger scale, is also being mooted by San Paolo, which has majority stakes in Banco Lariano and Banca Provinciale Lombarda, two highly profitable banks in northern Italy. Either could exert a strong draw for the German, French and even Spanish banks keen to expand their presence in Italy.

But straightforward disposals should no longer be seen as foregone conclusions. For, following the December 1986 sale of Banca d'America e d'Italia to Deutsche Bank – as part of a process, encouraged by the central bank, to open the domestic market to foreign influence – the Italian banking community now appears to be putting much more emphasis on the need for reciprocity in any transaction – a policy which may also have found a favourable echo at the Bank of Italy itself.

So while smaller purchases – such as Crédit Lyonnais's acquisition of a stake, standing at around 49 per cent, in regional institutions like Credito Bergamasco – may still be approved, foreign bankers with bigger ambitions in the Italian market need to know that any acquisition, to be successful, will have to involve not just money, but also require an element of give as well as take.

Haig Simonian

Italy has just 2.4 branches per 1,000 inhabitants, against 5.2 per 1,000 throughout the EC

Italian bank results: end 1989 (L bn)

	Net profit	Total loans	Total assets
Banca Commerciale Italiana	420 (- 16%)	83,700 (+44%)	112,600 (+52%)
Credito Italiano	270 (- 35%)	67,161 (+29%)	94,045 (+29%)
Banco di Roma	103 (+129%)	53,022 (+ 5%)	81,912 (+15%)
Banca Nazionale del Lavoro	(496)	84,368 (+11%)	101,644 (+12%)
San Paolo di Torino	560 (+ 8.5%)	48,683 (+23%)	111,000 (+30%)
Banco di Napoli	104 (+ 40%)	54,858 (+ 6%)	65,131 (+14%)
Banca Ambrosiano Veneto	143 (+ 15%)	12,851 (+26%)	28,055 (+20%)

Friends abroad

Gianni Zandano

FROM ITS roots as a Piedmontese financial institution dating back to 1563, Istituto Bancario San Paolo di Torino has, since the mid-1980s, launched a string of foreign initiatives.

Domestically, its position has been consolidated with the purchase of a sizeable interest in Crediop, the Rome-based long-term credit institution.

Mr Gianni Zandano, an academic by training who took his Ph.D. at Yale with a thesis on

Profile: GIANNI ZANDANO

Monetary and Credit Economics, is modest about his role in the changes that have come about since he became chairman in May 1983.

Stressing that any opinions are strictly his own, he accepts that Italian banking, long handicapped by branching restrictions and divisions between different types of credit institution, is entering a period of change.

"Our own expansion programme for the years 1990-93 calls for the opening of at least 200 new branches at group level" he says. Meanwhile, linking up with Crediop, the second biggest long-term lending agency in Italy, fits in perfectly with San Paolo's plans to broaden its range of services in its home market.

Mr Zandano is cautious when it comes to addressing the widely-expressed view that San Paolo will eventually take full control of Crediop. But the "assignment" of San Paolo's own public works credit section, with a loan book of over L3,700bn, to Crediop at the end of last year marked the first – but probably not the last – important rationalisation between the two companies' activities, he notes.

But it is San Paolo's foreign intentions that have drawn the greatest attention of late. As the biggest single shareholder in Hambros, following a small increase in its former 12 per cent stake earlier this year, Mr Zandano dismisses suggestions that San Paolo is ready, or even at this stage able, to mount a full takeover. Regulatory considerations in London and Rome aside, "we wouldn't consider a takeover even if it were available," he stresses.

Rather, the Hambros stake has given San Paolo access to valuable know-how, while indirectly extending its geographical range into areas such as India where it was barely active before. And buying into Hambros has also brought it into contact with Guardian Royal Exchange, another big Hambros shareholder, with which San Paolo launched a ground-breaking initiative into the Italian life and general insurance markets last year.

"The alliance with Hambros certainly proved to be a preferential channel for finding a partner of such high standing as GRE, and for the rapid definition of our agreement," he admits.

But that is partly what international links based on small equity stakes are all about, argues Mr Zandano. "To go abroad, you need friends." **HS**

Conflict in the club

SPANISH bankers have to try much harder these days to maintain the cool that, as traditional custodians of the country's wealth, is expected of them. The old order, safe and comfortable, is breaking down.

It started with Banco de Bilbao's attempt at the end of 1987 to take over Banco Espanol de Credito (Banesto). This was considered an outrage by Madrid's clubby bankers at the time, and most were quite happy to see the bid fail. But the rot had set in. Banks have since been poaching staff from each other for the first time, in order to meet demand for new financial services and, as of August last year, a doddering old interest-rate cartel among big domestic banks collapsed.

By now, however, it was no surprise that Banco Santander did the damage. While its main rivals among Spain's "big seven" commercial banks have gone quietly about preparing their defences ahead of 1992, Santander has eschewed local mergers or alliances and invested heavily in Europe and

SPAIN

taken a 10 per cent stake in Royal Bank of Scotland, Britain's sixth biggest high street bank. Santander's merchant bank, Banco Santander de Negocios, has also become the biggest broker in the four Spanish bourses since they were reformed last summer.

In August, Santander rocked the industry again by introducing an interest-bearing current account that now pays up to 14.5 per cent. The disdain and feigned nonchalance affected by its rivals was a good measure of how important the move was. It ended, for ever, a tacit agreement not to break ranks on interest rates.

It took the other big Spanish banks about six months to admit defeat. Slowly, and then in a rush, the others, starting with Banesto, began offering so-called "super accounts" with high interest rate payments to customers with large balances. Even the mighty Banco Bilbao Vizcaya (BBV), which had scoffed at the idea, was forced a few months ago to offer its own super account.

The stakes in this deposits war are big. Banco Santander had Pta376bn ($3.5bn) in current account deposits by the beginning of August. That put it in fourth place behind BBV, Banesto and Banco Central. Six months later, its current account deposits had almost doubled to Pta751bn and it now leads the current account deposit league table, though it still remains in fourth place if overall deposit accounts, including savings accounts, are taken into consideration.

There is something fevered about the way Santander is pursuing new customers. The bank's aim has clearly been to attract retail clients – at a price – to the new accounts but then to be in a position to offer them newer and perhaps more profitable financial services.

There were chuckles in the banking community at the end of February, when the Bank of Spain decided to make a sharp cut in bank liquidity reserve ratios – the percentage of deposits banks are obliged to lodge with the central bank. In order to avoid a flood of money on to the market, the Bank then insisted that all the liberated reserve deposits be used to buy long-dated certificates of deposit. This meant that the reserve element of all the deposits Santander had attracted with its new account since last August were still tied up, whereas rivals who had only just begun to offer super accounts would be able to hold on to a much greater proportion of the money they attracted.

Santander, though, has just answered this with another stroke of bare-faced cheek, and placed a high-interest rate savings account on the market. The product is aimed both at Spain's aggressive savings banks (cajas de ahorro) and the other big commercial banks. The latter still pay miserly interest on saving accounts, and Santander's move is little short of a declaration of total war on all forms of deposit. The others, although they will hate it, will probably have to respond simply to stop the drift of new customers to Santander becoming a flood.

The irritating thing about this battle is that it occurs just as Spanish banks were beginning to relax about the threat to their retail business from foreign banks and to go up against the foreigners in investment banking. Now they have had their concentration rudely interrupted.

Peter Bruce

New activities prove useful

CASTING A nervous glance across the Channel at their British competitors, or farther across the Atlantic towards the disasters of the US savings and loan industry, French bankers *have this year been permitting* themselves some modest self-congratulation at having come unscathed through 1989, despite a host of difficulties.

The major banks have all turned in satisfactory net profits: Crédit Lyonnais recovered strongly to FFr3.1bn ($544m), after a poor 1988; Banque Nationale de Paris (BNP) and Société Générale maintained a steadier rate of advance at FFr3.4bn and FFr3.6bn respectively.

Classic domestic banking has been at the root of these solid performances, with a marked reintermediation as companies have returned to bank credits after years of preferring disintermediated debt such as commercial paper. But newer activities, especially life insurance and leasing, have provided spectacular earnings growth.

Financial markets remained volatile throughout the year. More damaging, French short-term interest rates remained obstinately higher than long-term rates, and this inverted yield curve made it extremely difficult to make profits in capital-market operations.

"It is not easy to make money when there is a 1½ percentage point gap between long-term and short-term interest rates, and in the wrong

FRANCE

direction," said Mr Marc Viénot, chairman of Société Générale, whose dealing-room earnings fell last year to a fifth of their level in 1988.

Reliance on the financial markets has, however, increased, as the French banking system has changed in structure. In the past, the surplus deposits of the Crédit Agricole and Crédit Mutuel networks used, via the money market, to finance the other banks, whose lending exceeded their deposits. That surplus has now dwindled sharply, and *the banking system as a whole* is a net borrower.

"In the whole French financial system there are now only two institutions which are structurally lenders to the banks: the Caisse des Dépôts and the Bank of France," says Mr Daniel Lebègue, joint managing director of BNP.

Ashley Ashwood

Jacques de Larosière: stricter rules, lower ratio

At the same time, banks have seen their risks increase: in the developing world, where they have had to increase their provisions for bad debts, but also in France, and even in their interbank dealings.

BNP made the heaviest bad-debt provisions last year, FFr6.7bn, but this included its exposure to Banque Internationale pour l'Afrique Occidentale (BIAO), the ailing West African bank it took control of last year at the request of the French government.

French banks have, in general, built up strong reserves to cover on average 39.5 per cent of their sovereign debt exposure by the end of 1987, according to the Banking Commission — a figure expected to have risen to 42 per cent by the end of 1988.

For the largest banks, this figure is much higher: 60 per *cent for the BNP, 56 per cent* for Crédit Lyonnais, and 61 per cent, though calculated on a shorter list of risk countries, for Société Générale. Their problem is that beyond 60 per cent, the tax regime for provisions becomes much stiffer.

"We are approaching a wall, though perhaps a flexible or moveable one, since the French tax treatment is much less stimulating once you exceed 60 per cent cover. We will continue our provisioning effort in 1990, in the hope that this wall will not block us," said Mr Jean-Yves Haberer, chairman of Crédit Lyonnais.

The Banking Commission, however, is continually urging all banks to bring their reserves up to the average for the profession, and for some weaker companies this has meant going cap-in-hand to their shareholders.

Besides reserves, French banks have also had to boost their equity base, where they have generally been rather weaker than their foreign counterparts.

Mr Jacques de Larosière, the governor of the Bank of France, said recently that the 16 largest French banks *together had an average Cooke* capital adequacy ratio of 8.6 per cent at the end of 1988, but that on the stricter rules to come into effect in three years time, this ratio dropped to 7.5 per cent. The required improvement, however, should be well within reach by 1992.

Nevertheless, private-sector banks have been raising capital in the equity markets, while the state-owned banks have had to resort to more imaginative means. BNP has exchanged 10 per cent share stakes with Union des Assurances de Paris (UAP), the largest state insurance company; while Crédit Lyonnais has welcomed as shareholders both Caisse des Dépôts et Consignations, the state financial institution, in return for cash, and Thomson, the state electronics group, in exchange for control of its financial division.

But French banks have not only been on the defensive over the last year. Crédit Lyonnais has been the most expansive, *building up its European* retail banking network through the acquisition of Credito Bergamasco, in Italy, and the former Chase subsidiary in Belgium.

Crédit Agricole has also followed this strategy, though mostly with minority stakes. BNP is still seeking a retail banking network in Spain through a swap with Banco Bilbao Vizcaya, but the negotiations have stalled; the bank has had more success outside Europe, in California.

Other banks are sceptical about the strategy, and have preferred to seek out more limited niches in other European countries — CCF, or Société Générale with Touche Remnant, the UK fund manager, for example.

Banque Indosuez, the merchant-banking subsidiary of the Suez group, tried last year for a more ambitious strategy, with an approach aimed at a merger with Morgan Grenfell, the UK merchant bank. Rebuffed by Morgan, which preferred the charms of Deutsche Bank, Indosuez, too, is now concentrating on specific niches. Like Société Générale, it has now reinforced its fund management activities with the purchase of a UK manager, Gartmore.

George Graham

Secrecy gets a trimming

TWO EVENTS have highlighted the Swiss banking scene over the past six months. The *first* was the takeover of TDB American Express, the biggest foreign-owned bank, by the Compagnie de Banque et d'Investissement (CBI), a small Geneva bank. The second was CS Holding's bid for Bank Leu, the country's fifth largest and *oldest commercial bank.*

Each can be seen as a sign of the times. The sale of TDB illustrates the difficulties foreign banks encounter when they try to penetrate the specialised world of Swiss private

SWITZERLAND

banking. On the other hand, CBI's audacious coup in swallowing TDB underlines Swiss determination to consolidate their lead in the management of private wealth at a time when foreigners' perception of Switzerland as the ideal place for investors to store their wealth has been eroding.

The move against Bank Leu by the parent company of the Crédit Suisse group indicates that, after a decade spent on expanding abroad, the big Swiss banks have started to *pay greater attention to their* home turf. The CS bid may also signal an acceleration in the restructuring of Swiss banking and more spirited competition among the big banks, which for decades had been happy enough to march *in neatly cartelised step.*

Together the CBI and CS moves exemplify the adjustments which are now clearly under way in Swiss banking. The instigation for this shake-up is multiple.

International action against money *laundering* by narcotics dealers and other criminal organisations has trimmed back Swiss bank secrecy. Switzerland has co-operated with other leading industrialised countries in agreeing to stricter monitoring of movements of cash. In July a new federal law, *making assistance to money launderers a criminal* offence, will come into force.

The deregulation of the 1980s has made other, previously more constrained financial centres competitive with the Swiss. The construction of a single banking market in the *European Community* is *forcing* Swiss bankers to re-think long-standing practices.

In many respects the liberal Swiss banking regulations already conform with, or are ahead of, those being put in place by Brussels. Swiss banks *have little fear of being caught* by EC demands for reciprocity and should have no trouble about access to the EC market.

However, Brussels' accounting and disclosure requirements are impelling Swiss bankers to be more open in their reporting. In particular, they are being forced towards producing consolidated statements and will almost certainly have to break long-standing tradition and start disclosing their hidden reserves. The Swiss Federal Banking Commission has already said it is preparing a directive that will limit the size of the hidden reserves.

Another domestic instigator of change is the Cartel Commission, *itself* largely inspired by developments in the EC. It has already succeeded in getting rid of a clutch of price-fixing conventions and other oligopolistic arrangements, and is now waiting to see whether the Government will ratify its hotly contested recommendation that the banks abandon their price-fixing agreement on brokerage fees.

Swiss banks' 1989 reports demonstrated that they are already adjusting to realities, but also that, despite the overall recovery in earnings last year, they are *facing* inhabitual constraints which are compelling them to work hard at holding down costs and reinforcing their competitiveness.

Moreover, the reports signalled the demise of the practice under which the Big Three would announce almost identical profit growths and adjustments in dividend pay-outs.

Union Bank of Switzerland (UBS), the biggest, posted a 15.9 per cent climb in net earnings to SFr902m ($604m) and raised its dividend by 12.5 per cent. Swiss Bank Corporation (SBC), hampered by its involvement in the liquidity crisis at Coop AG, the West German retailing group, reported an 11 per cent increase in net profit to SFr750m and a dividend increase of 7.6 per cent. Crédit Suisse exceeded analysts' expectations by announcing a 28.5 per cent improvement in net earnings and a 15 per cent increase in its dividend.

There were other differences. Crédit Suisse produced consolidated figures. UBS brought SFr2bn of its hidden reserves on to the balance sheet, announced the abolition of its non-voting participation certificates and said it would show a consolidated profit and loss statement in 1990. SBC gave a *consolidated balance sheet figure* for the first time and said it, too, was considering simplification of its share structure.

Growth in lending and a recovery in income from commissions boosted bank earnings last year, but most bankers are downbeat about the outlook for 1990. The UBS provisional report explained why.

UBS experienced a surge of more than 30 per cent in interest earned, but interest paid soared by 36 per cent, as customers shifted *to higher* interest-bearing deposits, and UBS's net interest income rose by only 0.2 per cent.

Moreover, the banks are under heavy public pressure not to raise mortgage rates further at the same time as they are having to pay higher interest rates to fund their mortgage lending.

With high interest rates set to continue well into 1990 and low activity on the stock exchange restricting income for commissions, the banks will be hard put to it, to produce profit advances comparable with those of last year.

William Dullforce

Raising the barriers

THE NORDIC countries are ripping down the financial barriers that separate them, creating the basis for an unified and integrated regional market for banking and other financial activities in the 1990s.

The impetus for the great changes that are transforming the Nordic banking sector is the approach of the EC single market. Nordic countries have

SCANDINAVIA

little choice but to dismantle the barriers that have long protected their financial markets against outsiders. Otherwise, they face discrimination under EC reciprocity rules in trying to expand their banking operations in Europe after 1992.

The Nordic banks are seeking to strengthen their presence within the EC in the wake of their larger industrial corporate customers, who are increasing their investments within the Community. But the deregulation and liberalisation measures sweeping the Nordic region are having their biggest impact at home.

The free flow of capital within the Nordic region will probably produce the same effects predicted for the EC, with the price of financial services falling, pressure on credit costs easing, and a more narrow difference in interest rates between countries. Integration is also stimulating competition, leading to a much-needed consolidation of the Nordic region's overbanked market with the creation of more efficient units.

While Denmark has substantially liberalised its financial markets due to its status as a EC member, the deregulation in the non-EC states of Norway, Sweden and Finland are expected to be completed within the few years. Sweden has made the most extensive changes to date among these nations. It abolished virtually all of its foreign exchange controls last year. The establishment of branch offices for foreign banks will be allowed as of July 1, and foreigners will be permitted to buy shares in Swedish banks up to 20 per cent of voting power and 40 per cent of equity.

Norway and Finland are contemplating similar steps. Norway is easing rules on foreign ownership of banks and may soon allow the establishment of branch offices by foreign banks. Foreign bank branch offices are expected to appear in Finland at the beginning of 1991. Both countries have also eased interest rate controls, and are opening up their bond markets to foreigners as they gradually dismantle their foreign exchange regulations. Finland is following Sweden's example in adopting new capital requirements for banks to conform to EC standards.

Worries persist, however, as to whether these legislative changes will be enough to guarantee market access to the satisfaction of the EC. The EC attitude is hardening toward the Nordic countries and other Efta members due to suspicions that they are trying to gain a free ride from the single market without paying the cost of membership. The EC may pressure the Nordic region to adopt more far-reaching changes such as allowing foreigners to gain majority control over domestic banks.

Nordic banks, meanwhile, are adjusting themselves to the new rules and the threat of increased competition by consolidating operations in their domestic markets.

The banking sector is in need of reform. Too many banks exist to be efficient and the relatively small size of Nordic banks will prove to be a

The relatively small size of Nordic banks will be a handicap

handicap if they are to compete effectively against their bigger European rivals.

The region has seen a wave of mergers in recent months and more are expected to follow. Denmark has shown the formation of two rival blocs. Danske Bank, Copenhagen Handelsbank and Provinsbanken joined forces under the Danske Bank name, while Privatbanken, SDS and Andelsbanken combined to create the Unibank Danmark group.

The Nordic region's biggest commercial bank group was created in Sweden with the merger of state-controlled PKbanken with the provincial Nordbanken. Other major Swedish banks have been busy acquiring local banks. Gotabanken bought Wermlandsbanken and Skaraborgsbanken, while Svenska Handelsbanken took over Skanska Banken. Most of Sweden's eight regional banks are now affiliated with one of the four national banks.

In Norway, two of its biggest banks, Bergen Bank and Den norsk Creditbank, merged to form the Den norske Bank. Consolidation is also occuring among the country's numerous regional banks. Only Finland has escaped the merger mania, largely due to the fact that the banking sector is already dominated by the Union Bank of Finland and Kansallis-Osake-Pankki.

But these domestic consolidations are only considered a preliminary step to the formation of more extensive pan-Nordic bank groups based on cross-ownership arrangements. Several such groups already in embryo form. Scandinavian Banking Partners, for example, was established six years ago to improve cooperation between the four members banks, one from each Nordic country.

The group consists of Sweden's Skandinaviska Enskilda Banken, the Union Bank of Finland, Unibank Danmark and Den norske Bank.

An alliance has also been formed between Sweden's Gotabanken and Finland's Kansallis-Osake-Pankki. And the region's first cross-border bank acquisition occurred in February when Svenska Handelsbanken bought Norway's Oslo Handelsbank.

These bigger groups with their improved economies of scale will bolster the ability of Nordic banks to gain a more secure foothold within the EC.

Although growth on the continent will help them escape their cramped market conditions at home, Nordic bankers realise they will have difficulty carving out a market for themselves in the major EC countries against dominant domestic rivals. They are likely to seek partnerships with other big European banks instead.

While they expand their activity geographically, Nordic banks are also entering new financial areas as strict regulations governing their operations crumble. The next few years are likely to see the final disintegration of traditional and legal barriers that have kept banks separated from the insurance sector, and mortgage companies from the banking sector.

This will pave the way for the creation of Nordic financial institutions robust enough to survive the passage from their once isolated and protected national markets to the tough and competitive atmosphere of a single European one.

John Burton

It's too early for tears

THE BIG banks are both the plumpest targets and the most formidable attackers in an intense rivalry for advantage in *Canada's fast-changing* financial services market.

An array of competitors is taking aim at bits and pieces of the banks' business. At home, trust companies have become banks in all but name, and, as members of wider financial service groups, are able to reap the benefits of cross-selling their various products and sharing their computer systems.

More recently, some of Canada's biggest life assurers, such as Sun Life and Manulife Financial (formerly Manufacturers Life), are challenging

CANADA

the banks by expanding into deposit-taking, residential mortgages and a host of other services by acquiring trust companies.

To the banks' particular chagrin, non-bank multinationals such as American Express and General Electric are playing a growing role in Canada, through their financial service subsidiaries. American Express has become the first non-banking institution to be granted a banking licence in Canada. A GE unit, GE Capital, has become Canada's third-biggest car-leasing company, a field the banks are barred from entering.

CANADA'S BIG SIX BANKS: three months to January 31 1990 (*1989*)

	Average assets (C$bn)	Net income (C$m)	Loan loss provisions (C$m)
Royal Bank of Canada	118.0 (*109.9*)	274.0 (*269.9*)	80.0 (*155.0*)
Canadian Imp'l Bank of Commerce	103.5 (*94.6*)	219.2 (*202.2*)	71.0 (*137.0*)
Bank of Nova Scotia	81.2 (*75.7*)	148.1 (*151.7*)	37.5 (*39.2*)
Bank of Montreal	80.2 (*77.6*)	179.8 (*150.2*)	49.0 (*92.0*)
Toronto-Dominion Bank	65.1 (*60.7*)	172.1 (*195.8*)	62.5 (*62.5*)
National Bank of Canada	35.1 (*31.0*)	70.0 (*78.8*)	26.5 (*37.5*)

The Canadian banks have also found they are no longer the force they once were on the international stage. Only one – Royal Bank of Canada – *remains in the world's Top 50* banks, compared with four 20 years ago. Royal's recent sale of its 50 per cent interest in Australia's National Mutual Royal Bank was the latest in a string of divestments and closures which have marked the banks' retreat in recent years to their North American and Caribbean strongholds.

But it would be premature to shed any tears for the banks. Though they may leave the impression of being under siege, they remain by far the most powerful players in the Canadian financial services industry, and are losing few opportunities to elbow themselves into new businesses.

The banks make up about 30 per cent of the assets of all financial institutions in Canada, compared with about 20 per cent for insurance investments and pension funds, and 15 per cent for the trust companies. The 57 foreign banks in Canada, with combined assets on October 31 1989 of C$54bn (US$46.5), are no match for the six big domestic banks, whose assets reached C$470bn last year.

The banks have become a dominant force in the domestic securities industry over the past two years, as one after another has bought an investment dealer. The only one of the six not to make an acquisition, Toronto Dominion, has none the less built up a significant presence in the industry through its in-house subsidiary, TD Securities.

Several have set up real-estate subsidiaries, partly to develop their own valuable property holdings to greater profit, but also to take a more active role in the development industry as a whole. Computer systems, payroll services, *mutual funds and investment* management are among the other businesses to which the banks are extending their influence.

Insurance is their latest hunting ground. TD, for instance, has arrangements to refer applications for homeowners' and motor-vehicle insurance to Simcoe & Erie, a general insurer based in Hamilton, Ontario. Canadian Imperial Bank of Commerce now offers cargo coverage to importers, underwritten by Royal Insurance.

To the great frustration of all the financial institutions, much of this crumbling of the long-standing "four pillars" of the Canadian financial services industry (banks, trusts, insurers and securities firms) is taking place in a regulatory vacuum.

The federal government has dithered for the past four years in attempts to rewrite five statutes governing the ownership and functions of institutions under its jurisdiction, which include the banks and some trust and insurance companies, and credit unions.

One proposal after another has appeared, been debated and then quietly disappeared as consensus *has* proved impossible.

The most contentious issues include the ownership of trust companies and the extent to which banks should be allowed *into the insurance* and motor vehicle leasing business. The domestic banks, whose shareholders are restricted to a maximum individual holding of 10 per cent, want similar broad ownership rules extended to the trusts, almost all of which are now controlled either by financial or industrial conglomerates.

Among the provinces, Quebec has been particularly quick to take up the slack, including a suggestion that financial institutions within its ambit be allowed to own commercial and industrial enterprises.

Bernard Simon

Rulemakers' dilemma

AN ALREADY vigorous debate about the shape of Australia's deregulated banking and financial services industry has just been turned on its head by a single deal – the ANZ Banking group's surprise $A3.8bn (US$2.9bn) bid for control of the major insurance group, National Mutual.

The proposed marriage of *two of the country's biggest* institutions, potentially creating a $A170bn financial giant,

AUSTRALIA

has crystallised a raft of new issues for authorities still trying to adjust to the dynamics of deregulation.

A successful ANZ bid would not only give it access to National Mutual's vast insurance and super pool worth close to $A20bn; the bank would also get control of National Mutual's $A39bn portfolio of managed funds, another key area of leakage from traditional bank deposits.

The upshot is to force the Australian authorities, notably the Federal Treasury, the Reserve Bank and the Insurance and Superannuation Commissioner, to change their main regulatory pre-occupation of recent years.

Instead of considering questions of control of just the banking industry, they now must look at the much wider issue of dominance of the whole *financial services industry.*

If the merger succeeds, competitive forces will dictate that banks like Westpac, the National Australia, the Commonwealth and the country's biggest insurance group, AMP, must consider getting together.

This would also mark a major change of thrust for these institutions, because the major banks were busy for most of 1989 establishing small cross-shareholdings and AMP has recently shown a strategic desire for overseas expansion in its own industry, acquiring the London-based Pearl group for about $A2.5bn.

The ANZ-National Mutual merger has probably squashed the idea of major bank mergers in Australia, forcing the banks to face up to the political difficulties. The great bank deregulation experiment, which started in

Australian banks: market share (%)

	1989	1990
Total local big four	67.9	66.1
Total state banks	15.9	16.7
Total foreign banks	10.5	11.1
Total smaller locals	*5.7*	6.1

Australia in the mid 1980s, has largely failed at the retail end.

Ironically, the new bank which had the greatest retail presence, the National Mutual Royal Bank (a joint venture between the National Mutual and the Royal Bank of Canada) has been swallowed by the ANZ as part of the wider merger deal.

The licensing of almost 20 new banks in Australia, most of them foreign, has done little more than emphasise the market dominance of the big four trading banks. Although the newcomers managed to increase *their market share* slightly last year, it was slow progress at high cost.

Adding the big four and the state banks, the "establishment" share of banking assets in Australia totalled almost 83 per cent at the beginning of 1990, leaving the new foreign banks and the smaller locals to fight over a tiny share of an already small market.

Merger speculation between major Australian banks has now shifted to the institutions owned by state governments, with the three largest in New South Wales, Victoria and South Australia thought a chance to get together. But opinion is divided over whether a disastrous loss of almost $A1.5bn by the State Bank of Victoria in 1989 is positive or negative *for state bank* merger chances.

The Victorian bank's problems highlight another major concern for Australian regulators – the continuing fall-out from the October 1987 stock-market crash. A string of corporate collapses has landed Australian operating banks with their own home-grown equivalent of the wider world banking community's Third World debt crisis.

Bad and doubtful debts of the three major listed banks – ANZ, Westpac and the National Australia, rose to $A2.6bn in 1989, outweighing their total declared net profits of just over $A2bn.

For the largest seven foreign banks – Citibank, Security Pacific, Barclays, Standard Chartered, Chase AMP, *Hong Kong* Bank and National Mutual Royal – the analysis was much worse. They racked up bad and doubtful debt provisions of almost $A500m in the latest year, while declaring combined net losses of almost $A170m.

These figures give a pretty good idea of why the foreign banks are curbing their expansion plans in Australia, especially at the expensive retail end. *Stockmarket analysis of* banks has now switched heavily to assessing the quality of their loan books.

Bruce Jacques